

# **AS LEVEL**

## *Exemplar Candidate Work*

# ECONOMICS

## H060 For first teaching in 2015

# **Component 1**

## **Microeconomics**

Version 3

# Contents

<b>Introduction</b>	3
<b>Practice mark scheme</b>	4
<b>Candidate A</b>	7
Candidate response	7
Candidate response with Examiner's summary comments	9
<b>Candidate B</b>	11
Candidate response	11
Candidate response with Examiner's summary comments	13
<b>Candidate C</b>	15
Candidate response	15
Candidate response with Examiner's summary comments	16

# Introduction

We produced a 20-mark extended response question for AS Microeconomics (H060/01) and asked students to answer it.

The sample answers in this resource have been extracted from original candidate work to maintain their authenticity.

To facilitate different ways for using this resource, you will find the student answers twice, once without and then with examiner comments and marks.

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.

# Practice mark scheme



Oxford Cambridge and RSA

...day June 20XX – Morning/Afternoon

**AS Level in Economics**

**H060/01 Microeconomics**

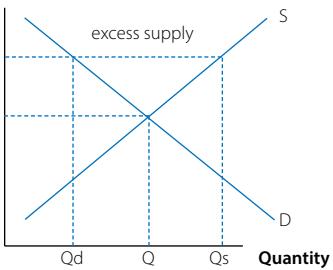
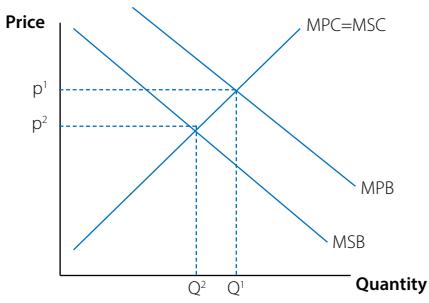
## PRACTICE MARK SCHEME

### MARKING INSTRUCTIONS

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

### LEVELS OF RESPONSE – LEVEL DESCRIPTORS

	Knowledge and understanding/ Application	Analysis	Evaluation
<b>Strong</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>		An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Question	Answer	Marks	Guidance
1 *	<p>In April 2014 the alcohol price floor came into force in England and Wales. Prices will be higher than the lowest-discounted alcohol available in England and Wales, but below Scotland's tougher minimum pricing scheme.</p> <p>Evaluate whether price controls, such as a minimum price for alcohol, is the best way for the UK government to reduce market failure caused by alcohol consumption. [20]</p> <p><b>Level 4 (16–20 marks)</b></p> <p><b>Good</b> knowledge and understanding of price controls and market failure caused by alcohol consumption.</p> <p><b>Strong</b> analysis of the link between price controls (such as a minimum price) and a reduction in market failure caused by alcohol consumption. A relevant and accurately drawn and labelled diagram is provided and linked to the analysis.</p> <p><b>Strong</b> evaluation including a supported judgement on whether price controls, such as a minimum price, is the best way to reduce market failure caused by alcohol consumption.</p> <p>Judgement must address the question, i.e. whether price controls are the best way to reduce market failure caused by alcohol consumption, not just market failure in general.</p> <p>There is a well-developed line of reasoning which is clear and logically structured. The information presented is entirely relevant and substantiated.</p> <p><b>Level 3 (11–15 marks)</b></p> <p><b>Good</b> knowledge and understanding of price controls and market failure caused by alcohol consumption.</p> <p><b>Good</b> analysis of the link between price controls (such as a minimum price) and a reduction in market failure caused by alcohol consumption. A relevant and accurately drawn and labelled diagram is provided and linked to the analysis.</p> <p><b>Good</b> evaluation on whether price controls, such as a minimum price, is the best way to reduce market failure caused by alcohol consumption.</p> <p>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.</p>	20 (AO1 x3) AO2 x4 AO3 x6 AO4 x7	<p><i>Indicative content</i></p> <p>Use and interpretation of either a price controls diagram:</p>  <p>Use and interpretation of either a market failure (negative externalities in consumption/demerit good) diagram:</p>  <p>Reasons why price controls are the best way to reduce market failure caused by alcohol consumption:</p> <ul style="list-style-type: none"> <li>Negative externalities caused by (excessive) alcohol consumption, the divergence between marginal private and marginal social costs.</li> <li>Places a price floor in to the market and increases the value of alcohol – tries to match the true market price by taking into account the full social cost and reduce consumption to the socially optimum level of output.</li> <li>There is a misallocation of resources, such as police and healthcare and loss of productivity.</li> <li>Increased revenue for suppliers, assuming that there is price inelastic demand for alcohol.</li> </ul> <p>Reasons why price controls are not the best way to reduce market failure caused by alcohol consumption:</p> <ul style="list-style-type: none"> <li>Price controls create excess supply – the market allocative mechanism is no longer working efficiently.</li> <li>Distorts price signalling and rationing function of the market.</li> </ul>

Question	Answer	Marks	Guidance
	<p><b>Level 2 (6–10 marks)</b></p> <p><b>Reasonable</b> knowledge and understanding of price controls and market failure caused by alcohol consumption.</p> <p><b>Reasonable</b> analysis of the link between price controls (such as a minimum price) and a reduction in market failure caused by alcohol consumption. A relevant diagram could be provided which is linked to the analysis.</p> <p><b>Reasonable</b> evaluation on whether price controls, such as a minimum price, will reduce market failure caused by alcohol consumption but without considering whether it is the best way.</p> <p>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</p> <p><b>Level 1 (1–5 marks)</b></p> <p><b>Limited</b> knowledge and understanding of price controls and/or market failure caused by alcohol consumption.</p> <p><b>Limited or no</b> analysis of the link between price controls and market failure caused by alcohol consumption. If a diagram is included it is less than perfect.</p> <p><b>Limited or no</b> evaluation.</p> <p>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</p>		<ul style="list-style-type: none"> <li>The minimum price could be set too low to act as an effective deterrent to reduce market failure.</li> <li>Will it be an effective deterrent, what is the price elasticity of demand for alcohol?</li> <li>Will suppliers of alcohol follow the regulation and set the price floor/minimum price?</li> <li>Negative effect on small producers and small newsagents if consumption of alcohol is reduced.</li> <li>Regressive solution – lower income households will be affected disproportionately to higher income households.</li> </ul> <p>Credit, where appropriate, knowledge/analysis of other, relevant factors.</p> <p>Possible routes into evaluation:</p> <ul style="list-style-type: none"> <li>Candidates may consider whether alternative methods are better than price controls/whether other methods are the best relative to price controls.</li> <li>To be able to access strong evaluation, candidates must make a direct comparison between alternative methods and price controls.</li> <li>Candidates may come to the conclusion that there is no best solution, that a combination of methods of intervention working together is the best way to reduce market failure caused by alcohol consumption.</li> <li>Are the better alternatives, such as: indirect taxation, information provision of the private and external costs, regulation (increasing age limits), pay per consumption for use of healthcare services if illness is caused by alcohol consumption.</li> <li>To what extent does alcohol consumption result in market failure? Are price controls an appropriate and proportionate response?</li> <li>Information failure of the policy maker – to what extent can they gauge the ‘right’ minimum price? If it is set too low the price won’t match the full social cost and the socially optimum level of output won’t be reached.</li> </ul>

# Candidate response

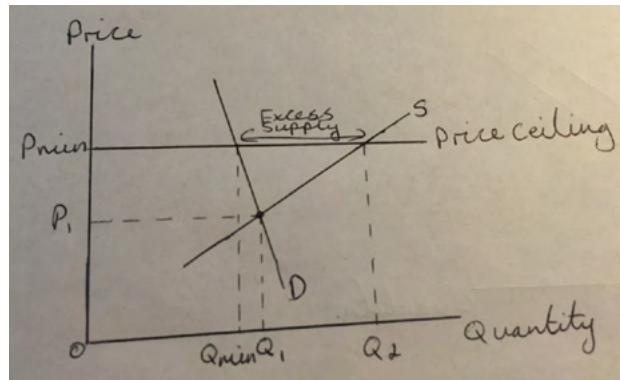
**In April 2014, the Alcohol price floor came into force in England and Wales. Prices will be higher than the lowest-discounted alcohol available in England and Wales, but below Scotland's tougher minimum pricing scheme.**

**Evaluate whether price controls, such as a minimum price for alcohol, is the best way for the UK government to reduce market failure caused by alcohol consumption. [20]**

## Candidate A – UNANNOTATED

Alcohol consumption within the UK does objectively result in market failure, given its negative externalities, if left to the free market. Through alcohol consumption there will be a divergence between marginal private and marginal social costs through the external cost to the NHS and police as they have to manage people who have drunk excessively and alcohol consumption, if in large amounts, can result in diseases such as diabetes and liver cancer. In addition, there will be a loss of productivity for the economy as people are either too unwell or too hungover to utilise all their skills or may have to leave the labour market altogether. Ultimately the market mechanism will not result in the socially optimum level of output and the market price doesn't reflect the full social cost. There is over consumption and over production of this merit good. Therefore, government intervention is then deemed necessary to help reduce, or even solve the market failure. By the government using price controls, such as minimum pricing, it could help to reduce the failure. However, there are other solutions which the government could use, such as taxation or regulation.

Firstly, minimum prices is implemented by setting a price floor for the selling of alcohol within the UK, above the average price, to in-turn prohibit alcohol-producing companies from selling it at a lower price, which would incentivise consumers to purchase as it. By introducing a price floor, it will help to reduce the market failure due to customers now not being able to consume the alcohol without paying more.



As you can see in the diagram, quantity demanded has decreased from  $Q_1$  to  $Q_{\text{min}}$ , and therefore shows less alcohol being consumed. It can then be evident that this has then reduced the amount to the socially optimum level of output, as alcohol is not being drunk in excess, and therefore limiting the externalities.

However, in the diagram, the demand curve shows that there is price inelastic demand for alcohol, given alcohols habitual qualities. Therefore, alcohol consumers will still buy it, even though it has become more expensive. As a result, minimum pricing may not be the best choice for reducing the market failure of alcohol consumption within the UK.

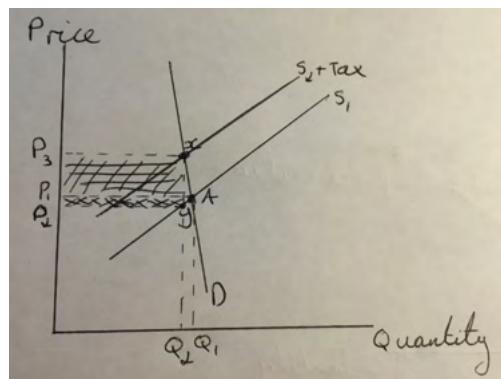
In addition to this, price controls are notoriously difficult to set appropriately, the government may be subject to asymmetric information when researching the 'best' price to set the minimum price at and therefore either set it too high or too low. If too low, there will be very little incentive to reduce consumption and the socially optimum level of output will fail to be reached.

## Candidate A – UNANNOTATED (cont)

There is often an argument that price controls distort the rationing function of the market by preventing price signals to operate efficiently, however, a minimum price which is too low will not do so, all it may signal is that the government doesn't really believe that there are significant external costs associated with alcohol consumption thus losing any credibility in its endeavour to reduce this market failure.

This option is considered as an opportunity cost given that alternate methods of government intervention could be used, for instance indirect taxation such as V.A.T.

The government uses indirect taxation (V.A.T.) by adding on value to products to make them more expensive, so that it will then generate revenue for the government. Therefore in this case, by increasing VAT on alcohol, it may reduce the amount consumed, and still generate further tax revenue for the government, given its inelastic demand curve.



As you can see in the diagram, by the government implementing a higher indirect tax rate, S<sub>1</sub> to S<sub>2</sub> + TAX, it will help to reduce the quantity consumed from Q<sub>1</sub> to Q<sub>2</sub>, and again, reduce the negative externality. Similarly, it will help the government to gain a larger revenue for further government spending on other merit goods. For instance, area Y, P<sub>2</sub>, P<sub>3</sub>, X represents the revenue gained from the taxation on alcohol.

However, along with using minimum pricing, indirect taxation doesn't essentially solve the market failure as alcohol is a habitual product and is inelastic in demand, and therefore is not necessarily being consumed at the socially optimum level of output. It is not reduced to the amount on which the externality is reduced to desired level.

The alternative use for the government to solve this market failure altogether would be the use of regulation; making the production and consumption of alcohol illegal within the UK. This would in theory solve the market failure as no one would consume the de-merit good. However, in practice, by using regulation, it can create illegal activities, for instance, black markets; where the government has no control over the market of alcohol, and will therefore still not reduce the market failure to the socially optimum level of output.

To conclude, the use of minimum pricing to reduce the market failure for alcohol consumption is not the best method to solve the negative externalities, given its consequences. Indirect taxation is a more effective method, as the government is able to benefit by receiving revenue which could be further spent on merit goods such as provision of information about the negative externalities and education of the dangers of excessive consumption. There would still be some reduction in the market failure caused by alcohol consumption, some people would be priced out of the market and opt to either reduce or eliminate alcohol consumption. However, it still has to be stated that neither policies on their own correct the market failure, given the products price inelastic demand curve. The best solution is a combination of policies in order to provide a more sustainable solution.

## Candidate response with Examiner's summary comments

**In April 2014, the Alcohol price floor came into force in England and Wales. Prices will be higher than the lowest-discounted alcohol available in England and Wales, but below Scotland's tougher minimum pricing scheme.**

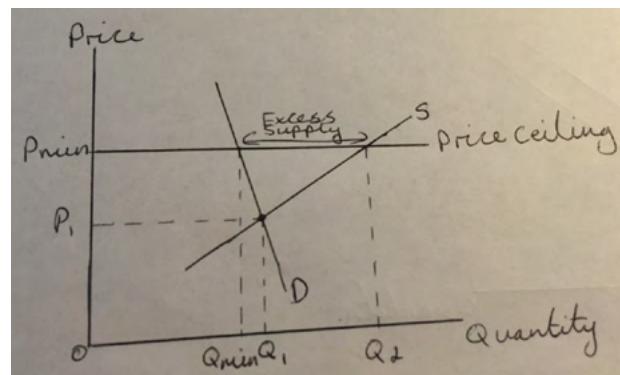
**Evaluate whether price controls, such as a minimum price for alcohol, is the best way for the UK government to reduce market failure caused by alcohol consumption. [20]**

### Candidate A – ANNOTATED

Alcohol consumption within the UK does objectively result in market failure, given its negative externalities, if left to the free market. Through alcohol consumption there will be a divergence between marginal private and marginal social costs through the external cost to the NHS and police as they have to manage people who have drunk excessively and alcohol consumption, if in large amounts, can result in diseases such as diabetes and liver cancer. In addition, there will be a loss of productivity for the economy as people are either too unwell or too hungover to utilise all their skills or may have to leave the labour market altogether. Ultimately the market mechanism will not result in the socially optimum level of output and the market price doesn't reflect the full social cost. There is over consumption and over production of this merit good. Therefore, government intervention is then deemed necessary to help reduce, or even solve the market failure. By the government using price controls, such as minimum pricing, it could help to reduce the failure. However, there are other solutions which the government could use, such as taxation or regulation.

Firstly, minimum prices is implemented by setting a price floor for the selling of alcohol within the UK, above the average price, to in-turn prohibit alcohol-producing companies from selling it at a lower price, which would incentivise consumers to purchase as it. By introducing a price floor, it will help to reduce the market failure due to customers now not being able to consume the alcohol without paying more.

As you can see in the diagram, quantity demanded has decreased from  $Q_1$  to  $Q_{min}$ , and therefore shows less alcohol being consumed. It can then be evident that this has then reduced the amount to the socially optimum level of output, as alcohol is not being drunk in excess, and therefore limiting the externalities.



However, in the diagram, the demand curve shows that there is price inelastic demand for alcohol, given alcohols habitual qualities. Therefore, alcohol consumers will still buy it, even though it has become more expensive. As a result, minimum pricing may not be the best choice for reducing the market failure of alcohol consumption within the UK.

In addition to this, price controls are notoriously difficult to set appropriately, the government may be subject to asymmetric information when researching the 'best' price to set the minimum price at and therefore either set it too high or too low. If too low, there will be very little incentive to reduce consumption and the socially optimum level of output will fail to be reached.

There is often an argument that price controls distort the rationing function of the market by preventing price signals to operate efficiently, however, a minimum price which is too low will not do so, all it may signal is that the government doesn't really believe that there are significant external costs associated with alcohol consumption thus losing any credibility in its endeavour to reduce this market failure.

*A nice introduction; good knowledge of market failure causes through (excessive) alcohol consumption and already some analysis of why price controls may be necessary.*

*The candidate is aware of the issues around alcohol consumption and recognises that alternative solutions are going to be part of the discussion, they have noticed that they're being asked to judge whether price controls are the 'best' solution.*

*The diagram is relevant, accurately drawn and incorporated into the analysis.*

*Reasonable evaluation of one of the problems associated with using price controls.*

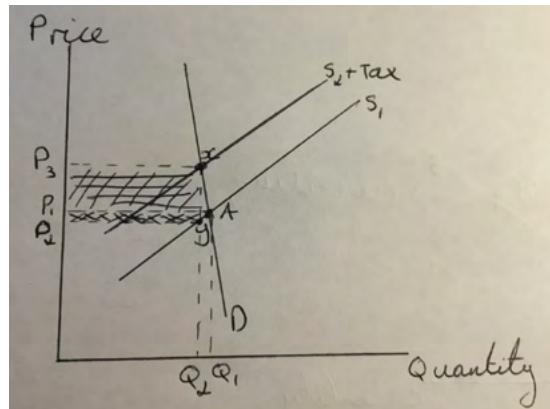
*Further evaluation of the issues around using price controls. This is good evaluation.*

## Candidate A – ANNOTATED

This option is considered as an opportunity cost given that alternate methods of government intervention could be used, for instance indirect taxation such as V.A.T.

The government uses indirect taxation (V.A.T.) by adding on value to products to make them more expensive, so that it will then generate revenue for the government. Therefore in this case, by increasing VAT on alcohol, it may reduce the amount consumed, and still generate further tax revenue for the government, given its inelastic demand curve.

As you can see in the diagram, by the government implementing a higher indirect tax rate,  $S_1$  to  $S_2 + \text{TAX}$ , it will help to reduce the quantity consumed from  $Q_1$  to  $Q_2$ , and again, reduce the negative externality. Similarly, it will help the government to gain a larger revenue for further government spending on other merit goods. For instance, area Y, P2, P3, X represents the revenue gained from the taxation on alcohol.



*An alternative method of intervention is used.*

However, along with using minimum pricing, indirect taxation doesn't essentially solve the market failure as alcohol is a habitual product and is inelastic in demand, and therefore is not necessarily being consumed at the socially optimum level of output. It is not reduced to the amount on which the externality is reduced to desired level.

The alternative use for the government to solve this market failure altogether would be the use of regulation; making the production and consumption of alcohol illegal within the UK. This would in theory solve the market failure as no one would consume the de-merit good. However, in practice, by using regulation, it can create illegal activities, for instance, black markets; where the government has no control over the market of alcohol, and will therefore still not reduce the market failure to the socially optimum level of output.

To conclude, the use of minimum pricing to reduce the market failure for alcohol consumption is not the best method to solve the negative externalities, given its consequences. Indirect taxation is a more effective method, as the government is able to benefit by receiving revenue which could be further spent on merit goods such as provision of information about the negative externalities and education of the dangers of excessive consumption. There would still be some reduction in the market failure caused by alcohol consumption, some people would be priced out of the market and opt to either reduce or eliminate alcohol consumption. However, it still has to be stated that neither policies on their own correct the market failure, given the products price inelastic demand curve. The best solution is a combination of policies in order to provide a more sustainable solution.

*The candidate compares indirect taxation with price controls.*

*Another alternative solution, but this isn't directly compared to price controls and so doesn't provide a strong judgement.*

*A good conclusive paragraph but unfortunately it does include new information (provision of information), it would have been better if this had been explored a little further. However, it is still strong evaluation which has been supported by strong analysis.*

### Level 4

**19 marks**

## Examiner's summary comments

### Level 4 (16–20 marks)

**Good** knowledge and understanding of price controls and market failure caused by alcohol consumption.

**Strong** analysis of the link between price controls (such as a minimum price) and a reduction in market failure caused by alcohol consumption. A relevant and accurately drawn and labelled diagram is provided and linked to the analysis.

**Strong** evaluation including a supported judgement on whether price controls, such as a minimum price, is the best way to reduce market failure caused by alcohol consumption.

Judgement must address the question, i.e. whether price controls are the best way to reduce market failure caused by alcohol consumption, not just market failure in general.

## Candidate response

**In April 2014, the Alcohol price floor came into force in England and Wales. Prices will be higher than the lowest-discounted alcohol available in England and Wales, but below Scotland's tougher minimum pricing scheme.**

**Evaluate whether price controls, such as a minimum price for alcohol, is the best way for the UK government to reduce market failure caused by alcohol consumption. [20]**

## Candidate B – UNANNOTATED

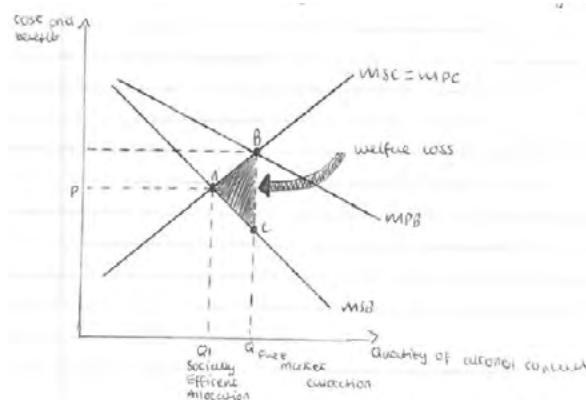
Price controls are a price floor for a market so therefore suppliers cannot sell the product legally at a lower price. The idea of a minimum price is a type of government intervention. However, for a minimum price to be effective it must be set above the normal market equilibrium price. One big concern about the consumption of alcohol would be that it has a consequence of an extremely high negative externality which would be in the form of over drink related violence and also public health problems which is all associated with the extreme consumption of alcohol. These will result in external costs on the NHS or the police which aren't compensated for by the person who is drinking too much. The normal equilibrium price wouldn't include this information and so would be too low leading to over consumption of this good.

In 2013 the UK government abandoned plans to introduce a minimum price for alcohol at 45p per unit. However, since 2014 there has been a ban on the sale of alcohol below a certain cost price defined as the level of alcohol duty plus VAT which was that lager can't be purchased below 40p and vodka can't be below £8.89.

There are many argument in favour of a minimum price being set on alcohol to reduce the market failure linked with the over consumption of alcohol. The one main reason for the minimum price would be the reduction in heavy negative externalities there are effect on a third party not in the original transaction and when there is an external cost. By putting a minimum price on alcohol it would reduce the negative externality which means a reduce cost for the government because it means that less doctors have to look after drunks who are paralytic or who have got into a fight and have caused damage to themselves or another member of the public.

Figures show that in 2002 average weekly alcohol consumption in England was 17.0 units for men and 7.6 units for women, so basically men cause all the problems. Also, alcohol accounts for about 6% of household spending with the total amount consumed rising with income. However, between 1980 and 2003 the prices of alcoholic drinks increased relative to other consumer prices by 24%, however, in line and at the same time periods household incomes has risen by over 90%. Another reason why minimum price would be good at reducing market failure because it can target high strength drinks which is used by younger drinkers which ultimately would reduce negative externalities in young people because when young people drink they drink to over drink which is why negative externalities are so great in young people. By putting on a minimum price on these drinks would mean that young people won't be able to afford the increases in the prices.

Externalities cause market failure if the price mechanism does not take account of the social costs and benefits of production and consumption and a negative externality would be shown in a diagram.



## Candidate B – UNANNOTATED (cont)

The diagram shows how a negative externality in consumption for example alcohol can lead to welfare loss when MPB is greater than MSB and when the units consumed are above the socially optimum level of output.

On the other hand there might be some reasons why a minimum price wouldn't be the best way to reduce market failure caused by over consumption of alcohol because some people might say that this is just a tax on responsible drinkers which would make people who don't over drink look for a replacement to alcohol and therefore alcohol companies suffer a loss of sales. Alcohol is known to be an addictive substance and therefore will have price inelastic demand for some consumers, reducing the effectiveness of the price controls, they won't dissuade people from purchasing it as they are less sensitive to the price and the socially optimum level of output won't be achieved.

There could be better ways to try to reduce the consumption of alcohol by for example the government could authorise the police to carry out random breathalysing tests on road users and if caught drinking and driving increase the scale of penalties when drink driving. Also the government could provide better information about the effect of alcohol consumption not only on you but the people around you. The government could put a large tariff on imported alcohol into the UK which would mean the companies have to pay more for the imported goods which would lead to retailers having to increase the price of some alcohol products which would ultimately lead to a reduction on the consumption of some alcoholic drinks.

In my evaluation I do believe that setting a minimum price would be the best and most effective way of reducing market failure through the over consumption of alcohol. Because a large percentage of the people who drink are the over consumption the product and are abusing the product and are at a very young age so create a large amount of negative externalities. However, making all alcohol more expensive will mean that the younger consumers can't afford the good, so therefore negative externalities of consumption are reduced. Overall, the idea that a minimum price would overall reduce the consumption of alcohol because of the new increased prices due to the minimum price level set at 40p or £8.89 which ultimately reduces the negative externalities. However, it depends on the government knowing whether this is the right price – if there wasn't enough information, the government may not set the minimum price correctly and may not target people in the right way.

## Candidate response with Examiner's summary comments

**In April 2014, the Alcohol price floor came into force in England and Wales. Prices will be higher than the lowest-discounted alcohol available in England and Wales, but below Scotland's tougher minimum pricing scheme.**

**Evaluate whether price controls, such as a minimum price for alcohol, is the best way for the UK government to reduce market failure caused by alcohol consumption. [20]**

### Candidate B – ANNOTATED

Price controls are a price floor for a market so therefore suppliers cannot sell the product legally at a lower price. The idea of a minimum price is a type of government intervention. However, for a minimum price to be effective it must be set above the normal market equilibrium price. One big concern about the consumption of alcohol would be that it has a consequence of an extremely high negative externality which would be in the form of over drink related violence and also public health problems which is all associated with the extreme consumption of alcohol. These will result in external costs on the NHS or the police which aren't compensated for by the person who is drinking too much. The normal equilibrium price wouldn't include this information and so would be too low leading to over consumption of this good.

In 2013 the UK government abandoned plans to introduce a minimum price for alcohol at 45p per unit. However, since 2014 there has been a ban on the sale of alcohol below a certain cost price defined as the level of alcohol duty plus VAT which was that lager can't be purchased below 40p and vodka can't be below £8.89.

There are many argument in favour of a minimum price being set on alcohol to reduce the market failure linked with the over consumption of alcohol. The one main reason for the minimum price would be the reduction in heavy negative externalities there are effect on a third party not in the original transaction and when there is an external cost. By putting a minimum price on alcohol it would reduce the negative externality which means a reduce cost for the government because it means that less doctors have to look after drunks who are paralytic or who have got into a fight and have caused damage to themselves or another member of the public.

Figures show that in 2002 average weekly alcohol consumption in England was 17.0 units for men and 7.6 units for women, so basically men cause all the problems. Also, alcohol accounts for about 6% of household spending with the total amount consumed rising with income. However, between 1980 and 2003 the prices of alcoholic drinks increased relative to other consumer prices by 24%, however, in line and at the same time periods household incomes has risen by over 90%. Another reason why minimum price would be good at reducing market failure because it can target high strength drinks which is used by younger drinkers which ultimately would reduce negative externalities in young people because when young people drink they drink to over drink which is why negative externalities are so great in young people. By putting on a minimum price on these drinks would mean that young people won't be able to afford the increases in the prices.

*Good knowledge of both market failure and price controls.*

*Nice real world awareness of price controls. Encourage students to include real world examples if they can – although only as a complement to their analysis and evaluation. It isn't on the mark scheme but it is nice to see their real world awareness.*

*Limited analysis of why price controls will reduce market failure caused by alcohol consumption.*

*This is quite descriptive. There is some knowledge and a hint of analysis at the end but this illustrates the danger of using too much real world knowledge, the answer is description (newspaper commentary) rather than an economic discussion.*

## Candidate B – ANNOTATED (cont)

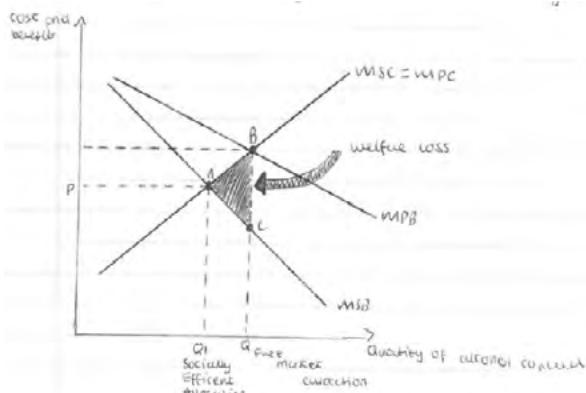
Externalities cause market failure if the price mechanism does not take account of the social costs and benefits of production and consumption and a negative externality would be shown in a diagram.

The diagram shows how a negative externality in consumption for example alcohol can lead to welfare loss when MPB is greater than MSB and when the units consumed are above the socially optimum level of output.

On the other hand there might be some reasons why a minimum price wouldn't be the best way to reduce market failure caused by over consumption of alcohol because some people might say that this is just a tax on responsible drinkers which would make people who don't over drink look for a replacement to alcohol and therefore alcohol companies suffer a loss of sales. Alcohol is known to be an addictive substance and therefore will have price inelastic demand for some consumers, reducing the effectiveness of the price controls, they won't dissuade people from purchasing it as they are less sensitive to the price and the socially optimum level of output won't be achieved.

There could be better ways to try to reduce the consumption of alcohol by for example the government could authorise the police to carry out random breathalysing tests on road users and if caught drinking and driving increase the scale of penalties when drink driving. Also the government could provide better information about the effect of alcohol consumption not only on you but the people around you. The government could put a large tariff on imported alcohol into the UK which would mean the companies have to pay more for the imported goods which would lead to retailers having to increase the price of some alcohol products which would ultimately led to a reduction on the consumption of some alcoholic drinks.

In my evaluation I do believe that setting a minimum price would be the best and most effective way of reducing market failure through the over consumption of alcohol. Because a large percentage of the people who drinking are the over consumption the product and are abusing the product and are at a very young age so create a large amount of negative externalities. However, making all alcohol more expensive will mean that the younger consumers can't afford the good, so therefore negative externalities of consumption are reduced. Overall, the idea that a minimum price would overall reduce the consumption of alcohol because of the new increased prices due to the minimum price level set at 40p or £8.89 which ultimately reduces the negative externalities. However, it depends on the government knowing whether this is the right price – if there wasn't enough information, the government may not set the minimum price correctly and may not target people in the right way.



**Good knowledge**

*The diagram is correct and linked to the analysis.*

*There is some analysis of the reasons why price controls won't reduce market failure caused by alcohol consumption. This gets the candidate to good analysis.*

*This paragraph is evaluation as the candidate considers alternative methods but this is a list of alternatives and they aren't directly compared to price controls. Reasonable evaluation so far.*

*Judgement is clearly answering the question.*

*This gets the candidate into good evaluation (just) but it would have been better to see further development of their ideas, underpinned by economic concepts or linked back to their diagram.*

**Level 3                    13 marks**

### Examiner's summary comments

#### Level 3 (11–15 marks)

**Good** knowledge and understanding of price controls and market failure caused by alcohol consumption.

**Good** analysis of the link between price controls (such as a minimum price) and a reduction in market failure caused by alcohol consumption. A relevant and accurately drawn and labelled diagram is provided and linked to the analysis.

**Good** evaluation on whether price controls, such as a minimum price, is the best way to reduce market failure caused by alcohol consumption.

There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and in the most part substantiated.

## Candidate response

**In April 2014, the Alcohol price floor came into force in England and Wales. Prices will be higher than the lowest-discounted alcohol available in England and Wales, but below Scotland's tougher minimum pricing scheme.**

**Evaluate whether price controls, such as a minimum price for alcohol, is the best way for the UK government to reduce market failure caused by alcohol consumption. [20]**

### Candidate C – UNANNOTATED

Price controls are actions undertaken by the government of an economy to reduce market failure and this includes minimising the negative externalities arising with the consumption of certain products, like alcohol. The government could either set a minimum or a maximum price to control certain markets directly.

A minimum price would be the policy used to reduce negative externalities in consumption, as a higher price leads to less consumption, because people maybe not be able to afford the good/service anymore or do not want to pay the new price. Therefore the negative externalities, that arise from the consumption of alcohol for example, is reduced and it will be closer to the socially optimum level of output. One of these negatve externalitites could be the costs for the NHS, when people get too drunk and have to go to the hospital or hurt themselves or other while being drunk.

However, this higher price would lead to a higher potential profit for suppliers, which would supply more, but could not sell all of their products in the end, because demand is not going to rise and will probably decrease. Therefore the market would not be allocatively efficient anymore, as demand is not equal to supply. Another problem with these price controls is, that the demand for alcohol is inelastic. This means demand, and therefore the negative externalities, do not decrease by a lot. The overall effect of the price controls is therefore quite low. It could also happen that the government sets the minimum price below the actual price at the market equilibrium. This woul mean, that this action would not have any effect at all, as the alcohol price remains at its usual point, as well as demand and supply. This could happen, because of wrong information or a lack of informaion, that the government has.

I therefore think that price controls are a possible method, but they are not effective and thir acutal use arguable. I think that there are better methoods, as a minimum price for example could even help the alcohol suppliers to generate higher profits, which they can use to start add campaigns for alcohol and thus negating the effect of the price control. In my opinion a tax on alcohol would be by far better, as it generates revenue for the government, that it can invest in other things, like the NHS.

## Candidate response with Examiner's summary comments

**In April 2014, the Alcohol price floor came into force in England and Wales. Prices will be higher than the lowest-discounted alcohol available in England and Wales, but below Scotland's tougher minimum pricing scheme.**

**Evaluate whether price controls, such as a minimum price for alcohol, is the best way for the UK government to reduce market failure caused by alcohol consumption. [20]**

### Candidate C – ANNOTATED

Price controls are actions undertaken by the government of an economy to reduce market failure and this includes minimising the negative externalities arising with the consumption of certain products, like alcohol. The government could either set a minimum or a maximum price to control certain markets directly.

A minimum price would be the policy used to reduce negative externalities in consumption, as a higher price leads to less consumption, because people maybe not be able to afford the good/service anymore or do not want to pay the new price. Therefore the negative externalities, that arise from the consumption of alcohol for example, is reduced and it will be closer to the socially optimum level of output. One of these negatvie externalitites could be the costs for the NHS, when people get too drunk and have to go to the hospital or hurt themselves or other while being drunk.

However, this higher price would lead to a higher potential profit for suppliers, which would supply more, but could not sell all of their products in the end, because demand is not going to rise and will probably decrease. Therefore the market would not be allocatively efficient anymore, as demand is not equal to supply. Another problem with these price controls is, that the demand for alcohol is inelastic. This means demand, and therefore the negative externalities, do not decrease by a lot. The overall effect of the price controls is therefore quite low. It could also happen that the government sets the minimum price below the actual price at the market equilibruium. This woul mean, that this action would not have any effect at all, as the alcohol price remains at its usual point, as well as demand and supply. This could happen, because of wrong information or a lack of informaion, that the government has.

I therefore think that price controls are a possible method, but they are not effective and thir acutal use arguable. I think that there are better methoods, as a minimum price for example could even help the alcohol suppliers to generate higher profits, which they can use to start add campaigns for alcohol and thus negating the effect of the price control. In my opinion a tax on alcohol would be by far better, as it generates revenue for the government, that it can invest in other things, like the NHS.

*The candidate is aware that alcohol consumption results in negative externalities but their knowledge isn't good.*

*A little further knowledge of the link between negative externalities and market failure – output is not at the social optimum. However, the analysis is limited, this is more descriptive.*

*A list of problems with a price control method of intervention. These aren't developed so analysis isn't strong, however, by presenting another side to the argument the analysis is now in L2 (just) as it has been developed and the candidate has used economic concepts to express their ideas.*

*A conclusion is given which has a judgement. The judgement is answering the question (not explicitly) and an alternative method of intervention is given with limited justification. However, the alternative isn't directly compared to price controls and hasn't been explored in any depth to enable to candidate to achieve good evaluation.*

**Level 2                  6 marks**

### Examiner's summary comments

#### Level 2 (6–10 marks)

**Reasonable** knowledge and understanding of price controls and market failure caused by alcohol consumption.

**Reasonable** analysis of the link between price controls (such as a minimum price) and a reduction in market failure caused by alcohol consumption. A relevant diagram could be provided which is linked to the analysis.

**Reasonable** evaluation on whether price controls, such as a minimum price, will reduce market failure caused by alcohol consumption but without considering whether it is the best way.

There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.



We'd like to know your view on the resources we produce. By clicking on the 'Like' or 'Dislike' button you can help us to ensure that our resources work for you. When the email template pops up please add additional comments if you wish and then just click 'Send'. Thank you.

Whether you already offer OCR qualifications, are new to OCR, or are considering switching from your current provider/awarding organisation, you can request more information by completing the Expression of Interest form which can be found here:

[www.ocr.org.uk/expression-of-interest](http://www.ocr.org.uk/expression-of-interest)

#### **OCR Resources: the small print**

OCR's resources are provided to support the delivery of OCR qualifications, but in no way constitute an endorsed teaching method that is required by OCR. Whilst every effort is made to ensure the accuracy of the content, OCR cannot be held responsible for any errors or omissions within these resources. We update our resources on a regular basis, so please check the OCR website to ensure you have the most up to date version.

This resource may be freely copied and distributed, as long as the OCR logo and this small print remain intact and OCR is acknowledged as the originator of this work.

OCR acknowledges the use of the following content:  
Square down and Square up: alexwhite/Shutterstock.com

Please get in touch if you want to discuss the accessibility of resources we offer to support delivery of our qualifications:  
[resources.feedback@ocr.org.uk](mailto:resources.feedback@ocr.org.uk)

#### **Looking for a resource?**

There is now a quick and easy search tool to help find **free** resources for your qualification:

[www.ocr.org.uk/i-want-to/find-resources/](http://www.ocr.org.uk/i-want-to/find-resources/)

## **ocr.org.uk/alevelreform**

OCR customer contact centre

#### **General qualifications**

Telephone 01223 553998

Facsimile 01223 552627

Email [general.qualifications@ocr.org.uk](mailto:general.qualifications@ocr.org.uk)

OCR is part of Cambridge Assessment, a department of the University of Cambridge. *For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored.*

© **OCR 2017** Oxford Cambridge and RSA Examinations is a Company Limited by Guarantee. Registered in England. Registered office 1 Hills Road, Cambridge CB1 2EU. Registered company number 3484466.  
OCR is an exempt charity.

