

Candidate Marks Report

Series : 6 2018

This candidate's script has been assessed using On-Screen Marking. The marks are therefore not shown on the script itself, but are summarised in the table below.

Centre No :	Assessment Code :	H460
Candidate No :	Component Code :	01
Candidate Name :		

Total Marks :



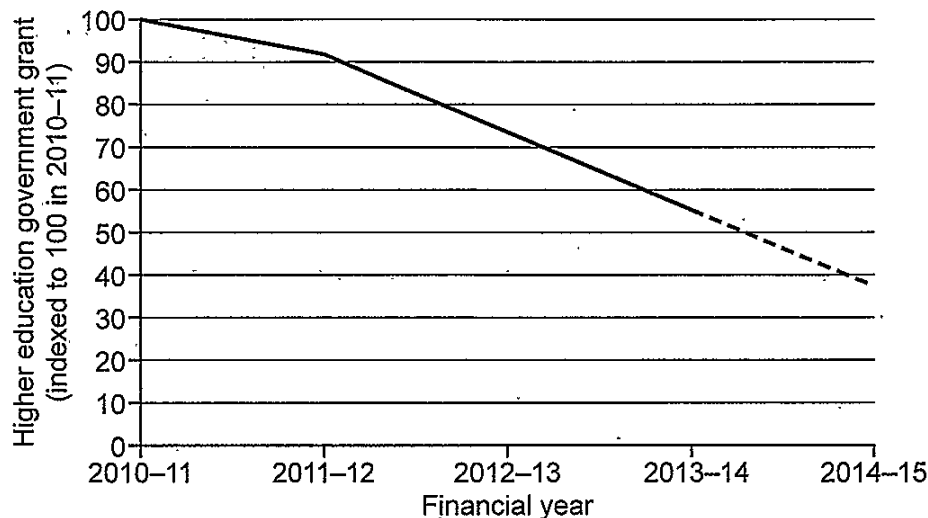
SECTION A

Read the following stimulus material and answer all parts of Question 1 which follow in this section.

Who should pay for students to study at university?

- 5 The proportion of university education provided by the public sector and the private sector varies throughout the world. Most UK universities are generally considered to be in the public sector. In 2017, there were only five private sector universities in the country. The difference between public sector and private sector universities, however, is changing. This is the result of a shift in the funding of higher education, particularly in England. Universities are obtaining less of their income from government financed teaching grants and an increasing proportion from tuition fees. Fig. 1 shows how the amount of government spending on higher education has fallen in recent years.

Fig. 1 – Spending on higher education government grant



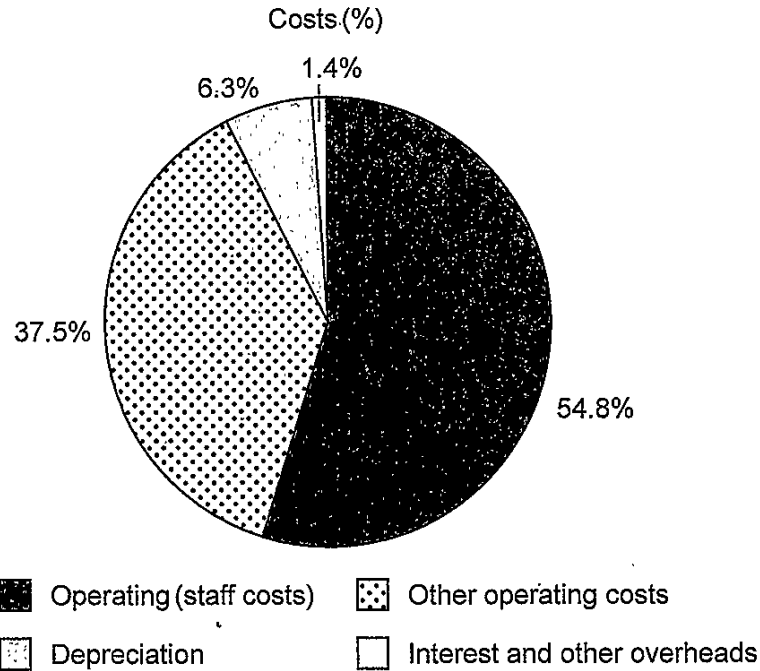
Note: Figure for 2014-15 was a predicted figure. Figures are in real terms, adjusted for inflation using the GDP deflator.

- 10 Tuition fees were introduced in 1998 at a maximum of £1,000 a year. By 2017, these had risen to a maximum of £9,250 for UK and EU students studying in England. Most universities charge this maximum annual fee. In October 2017, the government announced that it was freezing tuition fees at £9,250 instead of increasing them in line with inflation and raising the student loan repayment threshold from £21,000 to £25,000. Most students would like the government to maintain the freeze for some time or even scrap tuition fees altogether.
- 15 Some A Level students do not gain the grades needed to take up university places. In other cases, however, it is tuition fees which discourage them from applying to university. These students are concerned about future debt levels and value for money. The average pay for university graduates is higher than that for non-graduates. Future earnings, however, vary according to the subject studied, university attended and job gained after graduation.
- 20 Currently the highest earning post graduates tend to have been students of medicine, veterinary science, economics and engineering. While the lowest earners are found to be former students of English Literature, communication, agriculture and creative arts. A Level pupils are also aware that the learning experience varies between courses and universities, with some undergraduates complaining about lack of contact hours and high numbers of students in seminar groups.



25 While a limit on tuition fees may be welcome to many students, universities are concerned about
 the measure. They are worried that if they are not able to charge higher tuition fees and if they
 do not get more funding from the government, they will struggle to cover their costs. Universities'
 operating costs vary with the number of students they teach. Fig. 2 shows a breakdown of the
 total cost of £31.2 billion incurred by UK universities in 2014–2015 when they were educating
 30 2.2 million students.

Fig. 2 – The composition of the total cost of UK universities 2014–2015



The cost of providing degree courses varies between subjects and universities. It is, for example, more expensive to provide engineering courses than English Literature courses. The University of Cambridge, for instance, spends more per student than the University of Bedfordshire.

35 The amount spent on education for people above school age (tertiary education), includes spending on degree courses and vocational courses. Such education provides a range of benefits not only to those who undertake the courses but also to others. Tertiary education increases a country's output and the productivity of its workers. UK universities are also creating an increasing number of spin-off companies which create new jobs.



Fig. 3 shows how the proportion of people of two different age ranges who had completed tertiary education varied in selected countries in 2016, as well as average income in those countries.

Fig. 3 – The proportion of people who had completed tertiary education in selected countries in 2016

Country	25–34 year olds who completed tertiary education	55–64 year olds who completed tertiary education	Average income (GDP per head in US\$) 2016
Canada	60.6	46.2	42 200
Germany	30.5	26.3	42 000
Japan	60.1	39.7	39 100
New Zealand	43.4	28.2	39 400
South Korea	70.0	19.7	27 600
United Kingdom	52.0	37.6	39 900
United States of America	47.5	41.9	57 500



Answer all the questions.

- 1 (a) Explain, using evidence from the stimulus material, why higher education is a private good.

Private good is not provided by the government but instead by firms. Tuition fees were introduced in 1991 at a min of £1000. By 2017 it rose to £9,250. This is a private good because it has to be paid for and it is excludable. Because some poor students are scared to be in debt to the donor go to university. [2]

- (b) Calculate, using information from the stimulus material, the average fixed cost of educating a university student in 2014–2015.

$$AFC = \frac{TC}{\text{Output}}$$

$$1.4 + 6.3 + 54.8 = 62.5$$

$$\begin{array}{r} 31.2 \\ 2.2 \overline{) 31.2} \\ \underline{44} \\ 14.8 \end{array}$$

$$62.5 / 2.2 = 28.409$$

$$£28.409m$$

[3]

- (c) (i) Explain whether the information in Fig. 3 about average income and about 25–34 year olds who had completed tertiary education shows the expected relationship between the two.

There is no relationship between the average income and about 25–34 year olds who had completed tertiary education in Canada. The proportion of people 25–34 year was 60.0 whilst the income was 92,200 (US\$), whilst it was the same in Germany whilst the proportion of 25–34 year olds was 30.5. [2]



- (ii) Explain, using information in Fig. 3, which country is likely to have experienced the lowest relative increase in occupational mobility over the last thirty to forty years.

Germany is likely to experience the lowest relative increase in occupational mobility. This is because the number of skilled people who completed tertiary education is (70.5) this would therefore mean that they would have the lowest relative increase in occupational mobility. As people in these countries do not have the skill for the developing economy (tertiary sector) [3]

- (d) Evaluate whether students will benefit from the government freezing the maximum annual tuition fee for some time.

Students will benefit from the government freezing the maximum annual tuition fee for some time because it may act as an incentive for those who did not go into university because a fear in debt to go. This may increase their ability in the future to get better paid jobs as those with qualification would be more likely to get paid more than. This would also have a positive impact on the economy if the trickle down affect works. This means that other people who are not actively taking part in the interest may benefit. For example if more people are qualified this means that they are more likely to get jobs meaning an increase in tax revenue. The tax revenue could then be spent on healthcare or education which may



mean that they may get rid of tuition fees. However, this may not be the case as some students may be required to pay of going into university as the price may increase for them the following rate rather than decreasing how past data show. The tuition fees have only increased since the 1980 1998 and it has increased at a rapid rate. This could therefore lead to some students not benefiting but they may not have full information about the cost and benefits of studying at university.

[8]



- (e) Evaluate, using evidence from the stimulus material, whether a higher tuition fee should be charged to medical students than to English Literature students.

A higher tuition fee should be charged to medical student than English literature students. One reason for this is because future earnings for medical students are much more higher than the English literature students. This may suggest that medical students may find it more easier to pay their debt off because their income is higher whilst English literature students may find it more difficult. This could lead to further problems for the government. This is because some English literature students may then decide to earn below a certain threshold for the rest of their lives so that they can keep their sub income. This may mean that government may have to then spend more money to cover the cost of the tuition fee. This is because higher education is a private good meaning that in capital aim to make profits. And if they are unable to do so they may stop supplying higher education. This would be the one.

Another reason why tuition fee should be higher for medical student is because the cost of providing different degrees varies. It is more expensive to provide courses such as engineering than English literature. Meaning that medical students should pay more to cover the extra costs of



Government universities are struggling to cover their cost
 and could pass it on to other degrees that
 are not that expensive to run. However, this may
 disincentive ^{students} ~~people~~ going into the medical
 industry as university prices are too high
 as a result it could lead to a shortage of medical
 workers and they may have to be imported
 to fill the gap. This could reduce the UK's
 competitiveness.

Overall, it is clear that the government should
 potentially lower tuition fees. This is
 because increasing tuition fees could lead
 to a shortage in supply for medical students
 as an incentive supply because the
 training period is very long which doesn't all
 may discourage students from studying that
 profession. Also, increasing tuition fees could
 reduce tax revenue in the future if some people
 go into lower paid jobs to avoid paying their
 debt.

[12]



SECTION B

Answer EITHER question 2 OR question 3.

EITHER

- 2* Governments may use buffer stock systems to reduce the market failure caused by price instability.

Evaluate, using an appropriate diagram(s), the effectiveness of a buffer stock system in reducing market failure. [25]

*maximum
margin*

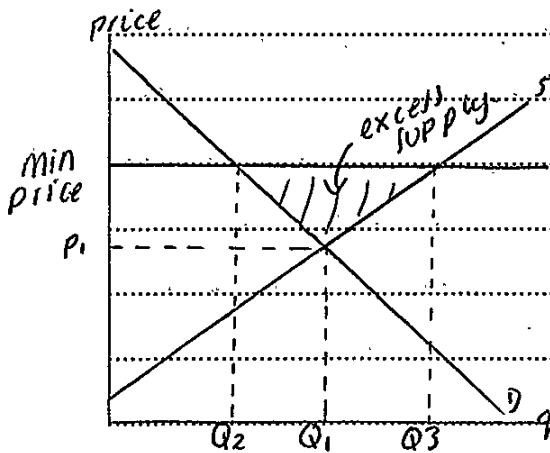
OR

- 3* Some economists claim that the Royal Mail was more efficient when it was a monopoly.

Evaluate, using an appropriate diagram(s), whether a monopoly will be efficient. [25]

Question no. *2*

Buffer stock schemes are used to stabilise prices and can be used in reducing market failure.



Governments intervene in a market when prices are too low. For example in the wheat industry. Producers charge the price of P_1 . However this price is not sustainable for wheat producers because the have factors of production which they need to pay for. The government for example machinery etc to collect the wheat. The government would therefore intervene and set the min price which is also placed above the equilibrium price. However as a result government would then have to step in to correct this market.



failure of the price is too high and because the demand for wheat is income elastic. The meaning is price increases demand decrease ($Q_1 - Q_2$). The government will then buy the excess supply. And this is known as buffer stocks.

Buffer stock schemes have some advantages. Buffer stocks ensure that the producers are paid a fair wage. This would enable them to continue producing. This it could therefore allow the domestic industry to stay competitive. In addition the stabilized price could allow manufacturers to innovate & possibly reduce cost. This will allow them to be more productive efficient and dynamically efficient. This may occur if manufacturers invest in new technology allowing them to reduce cost whilst increasing output thus possibly benefiting from economies of scale. Another main benefit of buffer stock schemes is allows ensure the socially optimum level to be maintained. This is because there will no longer be excess supply and demand and supply can meet. This could suggest reasons why buffer stock system could be used to reduce market failure.

However, there are some disadvantages of buffer stock schemes to reduce market failure. They can be very



expensive this is because government will have to buy the excess supply and if they are not able to sell it off it would mean that they would therefore have to store it somewhere which is also very expensive. This may not be sustainable and the best method because some goods are perishable and some goods may lose value over time. However, if governments are unable to sell it in domestic markets they could dump it abroad. This would allow them to raise government revenue and potentially increase improve their balance of payment. However, this may not be effective because international governments will not allow this as it could make their industry less competitive. Governments could also get rid of the excess supply by dumping them in landfill sites or by burning them. However, this would also lead to government failure as they would be increasing pollution in the atmosphere.

Overall, buffer stock schemes can be an effective way of reducing market failure. This is because it provides producers with a fair price that could allow them to expand and become more competitive. However, the cost of buffer stock system outweighs the benefit. There is an opportunity cost involved with using buffer stock system. The



money could have been used in other ways such as
 spending on education and healthcare. A US buffer
 stock system could make producers reliant on
 them and therefore become inefficient and wasteful.
 Buffer stock systems are cause another problem of
 government failure and it will also cost the
 government more money to solve this. Governments
 could use subsidies to help solve this market
 failure. Especially if the produced goods are deemed
 to be merits. This will be effective because it
 we may help increase the consumption of such
 goods.



SECTION C

Answer EITHER question 4 OR question 5.

> less than 1
normal inferior
more than 1
normal luxury

EITHER

4* Estonia continues to increase the role of market forces in its economy.

Evaluate whether operating a market economy is the best way to allocate resources. [25]

OR

5* Firms usually take into account the income and cross elasticities of demand for their products when setting their prices.

yes *yes* *type of market*
type of market
competition
Y.D > 1
Y.D < 1
PSNI

Evaluate whether a firm which produces a product that has positive income elasticity of demand and positive cross elasticity of demand should lower the price of the product. [25]

Question no.

Income elasticity measures the responsiveness of change in quantity demanded over the change in income.
Whilst cross elasticity of demand measures the responsiveness of a change in quantity demand for a good / service given a change in price of another.

Products that have an ^{positive} income elasticity are said to be normal goods. This means as income increases demand for the certain good ~~also~~ increases. This is because consumers have a higher income. This could suggest that a firm should lower ~~the~~ their prices because their goods are income elastic. However it also depend on whether the YED is greater than or less than one. This is because when YED is positive and less than 1 it means that it is a normal inferior. This means



that income will increase however ^{demand} consumption of the product will not increase at the same rate if the YED is more than 1 it means that the product is a normal luxury meaning that when income increases demand is ~~proportionally~~ more. This means that the firm should take into account the whether the number is greater or less than one meaning that price may not be the deciding factor and that the type of firm could also produce a product that has a positive cross elasticity of demand. good it is also plays a role.

Firms should also lower the price of the product if the cross elasticity of demand is positive. This is because it means that the product has substitutes that are strongly related. The substitutes are will be heavily dependant on value. If XED is more than 1 it means that the products are strongly related meaning that lower prices will be effective as it may not have a distinctive feature that sets it apart from other competitors. However when XED is less than one it means that the products are not strongly related meaning that a firm could possibly charge higher prices. However when XED is 0 it means that



there is no relationship between the goods. This could allow firm to charge higher prices or keep prices the same because the price of other product will not have an affect on demand.

Overall, the firm could lower the price of the product based on the fact it has a positive income elasticity of demand and positive cross elasticity because it could allow firm to achieve one of their main objective which is profit maximisation. They could use this to invest in R&D or use it to innovate and differentiate their products and this could increase revenue further. However, the firm should consider what type of market they are in. If they are in a competitive market, they should use competitive pricing rather than predatory pricing as this could lead to a price war which would not be beneficial to any of the firms in the industry. Firms should also consider increasing sales of their products via non-monetary ways such as promotion. Also firms need to also take into account how their products are being distributed. If online consumers have greater choice and knowledge meaning they may pick the company with the lowest



Will this may not always be the case as some
of them will not loyal.

END OF QUESTION PAPER



ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

Lined area for writing answers, consisting of a vertical line on the left and horizontal dotted lines extending across the page.



Area with horizontal dotted lines for writing.

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