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# A-LEVEL ECONOMICS

7136/1 Markets and market failure  
Report on the Examination

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Specification 7136  
June 2018

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**General**

This was the second sitting of the Linear A-level Paper 1: Markets and Market Failure. The paper represents 33.3% of the A-level and assesses mainly the subject content found in Section 4.1, 'Individuals, firms, markets, and market failure', of the specification. Students should be reminded that the economic principles included in Section 4.2 of the specification can also enrich their responses.

In order to provide familiarity to centres, the structure of the examination paper is very similar to that of the legacy specification ECON 3 paper. Section A includes data response questions requiring written answers, and is worth 40 marks. Students have a choice of one from two contexts. Section B includes essay questions and is worth 40 marks. Students choose one from a choice of three.

Compared to the legacy specification, the main difference lies within the approach to assessment and the greater use of a levels mark scheme. This has particularly affected the 9 and 15 mark questions, in Sections A and B respectively, and is intended to provide a more valid form of assessment to ensure students are appropriately rewarded. The responses are marked holistically. Examiners identify which skills students have demonstrated; knowledge, application, analysis and evaluation, and place the response in the most appropriate level in the mark scheme. This is contrast to the legacy specification, where students were able to accumulate marks when answering some questions simply by raising relevant issues. With the new mode of assessment more credit is given for 'sound' knowledge, 'good' application and 'well-focused' analysis.

In Section A, Context 1, 'Competition in UK Banking', proved to be far more popular than Context 2, 'Automation and the Labour Market', with just under 80% of students choosing this question. In Section B, Essay 1, relating to the use of petrol and diesel cars and regulation, was the overwhelming favourite, chosen by 73% of students.

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## Context 1

### Question 1

Students were required to calculate the ratio of customers gained to customers lost by Nationwide to one decimal place. Over a third of students gained 2 marks. Some students did not calculate the ratio to one decimal place, or did not leave the final answer as a ratio and these were awarded 1 mark.

### Question 2

For the 4 mark questions (questions 2 and 6) students needed to demonstrate that they understood how the data provided supported a particular proposition. There is no set way to answer these questions, and generally it was pleasing to see that some students had been taught how to approach them.

In this particular question students needed to explain how the data showed that the market power of the big four banks was weakening against competition from smaller rivals. Whilst a definition / explanation of weakening market power was not essential, it was helpful to support the data that the students chose to use. In addition to a definition or brief explanation, in the best answers the students said what they *expected* to find to address the question, quoted the evidence in the data and then tied the answer up by saying how this evidence explained what had been asked for. Whilst the evidence quoted was usually good, for example, many students used the net losses / gains for the big four and the smaller rivals, the explanations were often unclear or limited.

### Question 3

In the 9 mark questions (questions 3 and 7) students are instructed to use a diagram to help them answer the question.

In this question students needed to use a diagram to help them explain how the lowering of barriers to entry in the banking market might lead to lower prices and a situation in which banks make normal profit. It was expected that students would use a monopoly diagram, which showed the profit-maximising level of output and supernormal profit, in contrast to a lower price and normal profit due to the market becoming more contestable and/or more firms entering the market. Alternative diagrams were often drawn and were acceptable if supported by a logical chain of reasoning.

In the best answers students made use of the data and acknowledged that at the time the banking market was oligopolistic. From this point they were able to use the diagram to help explain the impact on price and profits using well-focused, logical analysis. Whilst an 'unused' diagram represents application of economics to the given context, once it is explained and used in the response it forms part of the chain of reasoning.

As is often the case, it was disappointing to see some elementary mistakes on diagrams, such as the so-called 'profit-maximisation' level of output not occurring where  $MR=MC$ , or the price not being taken from the AR curve.

### Question 4

Here students needed to use the extracts and their knowledge to assess the view that the Government should intervene further in the banking sector to promote greater competition. Some answers were solely theoretical and discussed the arguments for and against oligopoly and / or collusion (on the assumption that this must be taking place) without dealing with the context. Others focused excessively on policies, even to the extent of concluding which was the best policy option, rather than dealing with whether or not the government should intervene further. Many

students recognised the need to use the data in the extracts as part of their application skills, but in the better answers the data prompts were effectively integrated with the theoretical analysis. This helped to bring the theory to life, and was used to support valid and appropriate conclusions. Some of the best answers picked up on the word 'further' from the question, and acknowledged that the banking market had already been subject to government intervention, and gone through change in recent years. These students often included examples from their knowledge of the banking market and the financial crisis, though not always in the context of 'promoting greater competition'.

As always, in the very best answers, students demonstrated their evaluation skills throughout their response, for example by making judgements on the significance and importance of arguments as they progressed, before coming to their final judgement. Generally with the 25 mark questions, in order to achieve a level 5 response, the evaluation should be supported by theoretical analysis and also by the use of data from the extracts and the students' own examples and contexts. The latter is really only obtained when students take an interest in real world issues, and this plays a huge role in enriching their answers.

## Context 2

### Question 5

Students were required to calculate the number of transportation and storage jobs at high risk of automation as a percentage of those who were at risk across all industries, and most (61%) were able to do so accurately by selecting the correct numbers from the table. Less than 5% of students earned only 1 mark, either for failing to include the % sign, not calculating the figure to two decimal places, or for rounding the wrong way. However, over 30% of students failed to score any marks.

### Question 6

For this question students were required to explain how the data showed that workers employed in routine, repetitive work were at greater risk from automation. As with question 2, firstly, it was helpful to clarify the meaning of 'automation'. The best answers used evidence for industries at both high and low risk, and considered how those that involved the same task being done over and over again were more likely to be replaced by robots, for example, whereas those that required human interaction had a lower risk. However, many students simply used the words 'routine' and 'repetitive' which appeared in the question without developing further, so even though they used good evidence, their explanations were limited. However, overall they appeared to find the link between the data and the proposition easier to explain than those answering question 2.

### Question 7

In this question students needed to use a diagram to help them explain how advances in modern technology are likely to lead to rising wages in some industries. It was expected that students would link rising productivity to the marginal revenue product of labour in industries where technology was embraced. Consequently, the expected diagram showed an increase in the demand for labour (MRP labour) and a rise in the wage rate. However, there was a number of routes to full marks. Some students used the prompts in the data to help, whilst others brought in their own suggestions. For example, some brought in derived demand, or the point that more skilled workers would be needed to maintain/repair machines, or the idea that higher profits would enable firms to pay higher wages. As before, the best answers were written in the context of the question, and the diagram was properly integrated into the response to form part of the chain of reasoning.

### Question 8

In this question students needed to use the extracts and their knowledge to evaluate whether governments should allow markets to respond freely to the opportunities and challenges presented by technological progress, without any state intervention. The data focused on the labour market, and whilst the expectation was that students would do the same, credit was also given to those who considered the consequences of technological progress on product markets. However such responses lacked support from the evidence in the extracts and became 'generic' technological change essays. Students should be reminded to make full use of the extracts provided to support their points. Some answers focused completely on the arguments for and against different types of government intervention, specifically the 'robot tax' and the 'Universal Basic Income'. Although this was relevant to the answer, it was only part of a decision about whether or not governments should 'allow markets to respond freely' to the opportunities and challenges posed. In the best answers, students drew from the evidence in the extracts, often accompanied by their own relevant examples and context, and skilfully integrated this with their theoretical analysis, before drawing supported, and realistic conclusions.

## Essay 1

### Question 9

In this question students needed to explain why the use of petrol and diesel cars may be a source of market failure. This was a very straightforward question and was overwhelmingly the most popular. Whilst a diagram is not required in these essay questions, the best answers focused on negative externalities in consumption, and almost always included the supporting diagram, which was effectively integrated into the response to help develop the chain of reasoning. However many students simply drew a diagram and failed to make any reference to it. It has to be said also, that there was a number of errors in drawing diagrams, ranging from the hugely significant curves in the wrong places, to the less significant inaccurate identification of the deadweight welfare loss triangle. Answers were sometimes spoiled due to inaccurate diagrams, and students should be encouraged to learn and practise these. A diagram showing negative externalities in production and the accompanying analysis was allowed but sometimes a diagram was followed by a discussion of the negative externalities generated by 'manufacturing' cars, despite the question being about 'use'. Good answers included clear definitions of key terms, and provided examples of externalities, with many students making use of the prompts given at the start of the question.

In addition to the externalities theory, some students developed other chains of analysis such as information failure leading consumers to ignore the external costs of consumption. Answers were also enhanced by behavioural theory.

### Question 10

In this question students were required to assess the view that regulation is a better policy for dealing with the problem of air pollution than the allocation of property rights or taxation. The answer was expected to cover all three policies but since the wording of the question could be interpreted to be offering a choice, answers covering regulation and either property rights or taxation were equally acceptable. It was recognised that students writing about all three policies could not be expected to answer in the same depth as those who only covered two. Some students misinterpreted it as a 'which is the best policy' question and treated it as an opportunity to discuss any policy they had learnt and this was inappropriate.

It was expected that students would begin with a discussion of regulation in general, and an acknowledgement of its scope. However, few students actually even defined it, and some simply picked one example to analyse and evaluate. In some cases, where this was a 'poor' example of regulation it often skewed their evaluation of regulation as a whole, and adversely affected the quality of the answer. Whilst most students were comfortable discussing taxation, only a few were comfortable with the allocation of property rights. Few students, for example, were able to discuss the practicalities of trying to deal with air, and some confused property rights with pollution permits. In the best answers students integrated their own examples and context with their theoretical analysis, and considered the much broader scope of air pollution in general. A number of students continued the theme of the previous question, dealing only with petrol and diesel cars, which was fine, but sometimes limited the breadth of their analysis and evaluation.

## Essay 2

### Question 11

This question required students to explain how the Lorenz curve and Gini coefficient may be used to illustrate increasing income inequality in a country. It was very prescriptive and straightforward, yet was attempted by less than 9% of students. In the best responses, students drew a Lorenz curve diagram depicting the line of perfect equality and an initial Lorenz curve, with a second curve, drawn to the right of the first, to illustrate increasing inequality. Similarly, students used a range of numbers between 0 and 1 with regard to the Gini coefficient. A number of students integrated the two by linking the Gini calculation to the relevant areas they had highlighted on the diagram. Some students quoted the Gini data for the UK or for other countries over time, and whilst this wasn't essential it enhanced their answers.

Generally, students coped better with the Lorenz Curve than the Gini coefficient but sometimes their explanation did not extend to how they could both be used to illustrate increasing income inequality, as specified by the question.

### Question 12

Here students needed to assess the view that, in the UK, the consequences of wealth inequality are more damaging than the consequences of income inequality. It was expected that students would begin with clear definitions, and perhaps examples, of income and wealth, before going on to discuss the consequences (good and bad) of each type of inequality. However, for many students there was a lack of such focus at the beginning and as a result the discussion that followed did not distinguish between the two. Consequently it was difficult for these students to make a supported judgement in terms of which was more damaging. In the better answers, students recognised the links between income and wealth inequality and were able to develop their analysis accordingly. Most students were able to link the sense of unfairness, and the impact on incentives and various social factors to both income and wealth inequality, but often the economic analysis was not adequately developed. In terms of context, some students made use of the prompt at the start of the question, and generally responses were enriched by a whole range of examples. The impact of wealth inequality on the property market was a very common theme which students were often able to develop successfully.



### Essay 3

#### Question 13

In this question students needed to explain the role of profit in a market economy. A common starting point was to include a definition of profit, which was followed by the distinction between normal and supernormal profit. The better answers then systematically explained some of the roles of profit in a market economy. They often made use of at least one diagram, for example firm and industry diagrams in perfect competition, to illustrate the role of profit in resource allocation. However, some students struggled to develop these roles further, so the answers almost became a list of possible uses for profit. Others took it as an invitation to write everything they knew about profit whether it was relevant or not, and scored low marks.

#### Question 14

Here students needed to evaluate the view that firms making low profits must be inefficiently managed, and the question presented an almost blank canvas in terms of the different approaches students were able to take. There were some well-focused answers but also those which didn't pick up sufficiently on 'inefficiently managed'. A starting point for many was to liken 'low profits' to 'normal profits'. This was then followed by a discussion of types of efficiency, and a comparison of different market structures. Knowledge and understanding of different types of efficiency was generally good but this wasn't always linked to whether or not efficiency or inefficiency were down to the management of the firm. Better answers brought in different objectives of firms, and the need to satisfy various stakeholders, and this was often linked with the divorce between ownership and control. Other students discussed for example, the age of the firm, the state of the economy, and/or whether the organisation was in the public or private sector. As always, the best responses were enriched by the students' own examples and context.

### Summary

Centres should be reminded that in addition to the Report on the Examination there is a range of exemplar materials, such as students' responses and examiner commentaries available on the Secure Key Materials and AQA website to assist them in preparing students for the examinations.

### Use of statistics

Statistics used in this report may be taken from incomplete processing data. However, this data still gives a true account on how students have performed for each question.

### Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.