Past-paper walk-through

Methods and effects of government intervention in markets ▪ 3.2

eXercise

Questions in this set

- 9708/11 N25 Q14 ▪ 1 mark
- 9708/11 N25 Q15 ▪ 1 mark
- 9708/12 N25 Q14 ▪ 1 mark
- 9708/12 N25 Q24 ▪ 1 mark
- 9708/13 N25 Q4 ▪ 1 mark
- 9708/13 N25 Q12 ▪ 1 mark
- 9708/14 N25 Q12 ▪ 1 mark
- 9708/24 N25 Q2 ▪ 20 marks
- 9708/11 J25 Q13 ▪ 1 mark
- 9708/1 23 Q14 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 14

9708/11 N25 ▪ Q14 ▪ 1 mark

14 Why might a government introduce a minimum price for a product?

A to benefit poorer consumers

B to encourage consumption of a merit good

C to encourage production of a public good

D to support the incomes of producers

Solution 14

Answer: **D**

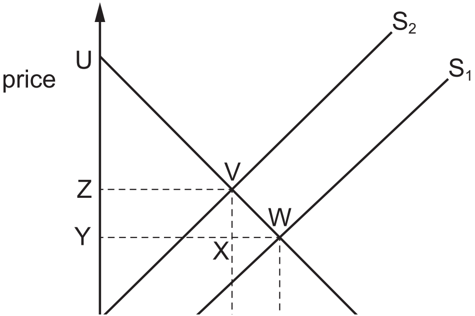
Why

- A minimum price is set *above* equilibrium, so it raises the price received.
- That protects producers' incomes and can discourage consumption of a demerit good.
- It cannot help poorer consumers, since it makes the product dearer for them.

Question 15

9708/11 N25 ▪ Q15 ▪ 1 mark

15 An indirect tax is imposed on a product.



Question 15

What is the change in consumer surplus?

A UWY **B** UVZ **C** ZVWY **D** ZVXY

Solution 15

Answer: **C**

Why

- Consumer surplus is the area under the demand curve and above the price paid.
- An indirect tax raises the price, so that area shrinks from the top.
- The change is therefore the region between the old and new prices, up to the demand curve.

Question 14

9708/12 N25 ▪ Q14 ▪ 1 mark

14 The income Gini coefficient of a country changes from 0.29 to 0.33 over time.

What might explain this change?

A an increase in food and energy subsidies

B an increase in structural unemployment

C an increase in the national minimum wage

D an increase in the top rate of income tax

Solution 14

Answer: **B**

Why

- A *higher* Gini coefficient means income is distributed less equally.
- So something has widened the gap between rich and poor.
- Subsidies and progressive taxes would lower it; regressive taxes or falling benefits would raise it.

Question 24

9708/12 N25 ▪ Q24 ▪ 1 mark

24 What is the most likely reason for a government to introduce a progressive tax?

A to discourage the consumption of a particular good

B to distribute disposable income more evenly

C to increase the disposable income of households

D to reduce demand for healthcare services

Solution 24

Answer: **B**

Why

- A progressive tax takes a larger *percentage* of a higher income.
- That reduces the gap between disposable incomes.
- So its purpose is redistribution, not discouraging consumption of any particular good.

Question 4

9708/13 N25 ▪ Q4 ▪ 1 mark

4 Which change in the way resources are allocated in an economy is consistent with moving from a planned economy to a market economy?

A A minimum price guarantee for apple producers is removed.

B A new government authority is established to monitor inefficiencies in apple production.

C The production of apples is subsidised to increase output.

D The sale of apples has a maximum price imposed.

Solution 4

Answer: **A**

Why

- A market economy allocates through price and profit, with less state direction.
- So removing price controls, privatising and opening up to competition all fit.
- Introducing a minimum price *guarantee* moves the other way, towards planning.

Question 12

9708/13 N25 ▪ Q12 ▪ 1 mark

12 The market for good X is in equilibrium when its price is $10. The government decides to set a maximum price for good X.

Which maximum price will cause the largest change in consumer surplus?

	maximum price for good X ($)
A	9
B	10
C	11
D	12

Solution 12

Answer: **A**

Why

- A maximum price only has an effect if it is set *below* the equilibrium.
- The further below equilibrium it is, the larger the shortage it creates.
- So the lowest maximum price produces the biggest excess demand.

Question 12

9708/14 N25 ▪ Q12 ▪ 1 mark

12 A government imposes a specific indirect tax on a product that has an inelastic demand curve.

What is the incidence of tax in this case?

A The tax falls entirely on the consumer.

B The tax falls entirely on the producer.

C The tax falls to a greater extent on the consumer than on the producer.

D The tax falls to a smaller extent on the consumer than on the producer.

Solution 12

Answer: **C**

Why

- The incidence of a tax is how the burden is split between consumer and producer.
- Where demand is inelastic, consumers keep buying, so most of the tax is passed on in the price.
- But not *all* of it – producers bear the rest, unless demand is perfectly inelastic.

Question 2

9708/24 N25 ▪ Q2 ▪ 20 marks

2 (a) Explain what is meant by the incidence of an indirect tax and consider the extent to which it is possible for the incidence to pass from a producer of a good to a consumer of that good. [8]
(b) Assess the extent to which a government should subsidise the production of merit goods to increase the consumption of these goods. [12] OR

(a) (a) Explain what is meant by the incidence of an indirect tax and consider the extent to which it is possible for the incidence to pass from a producer of a good to a consumer of that good. [8] **[8]**

(b) (b) Assess the extent to which a government should subsidise the production of merit goods to increase the consumption of these goods. [12] **[12]**

Solution 2

(a) Mark scheme

- Explain what is meant by the incidence of an indirect tax and consider
- the extent to which it is possible for the incidence to pass from a
- producer of a good to a consumer of that good.
- Follow the point-based marking guidance at the top of this mark scheme and
- award:
- up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2
- Analysis
- up to 2 marks for AO3 Evaluation.

Solution 2

- AO1 Knowledge and Understanding (max 3 marks)
- Of the meaning of an indirect tax and the incidence of an indirect tax. Note: a
- diagram is NOT essential but can be used, with a separate explanation, to
- show what is meant by an indirect tax and/or the incidence.
- ▪
- The incidence of tax refers to the extent of the burden/ proportion of tax
- borne by the producer and/ or consumer. 1
- ▪
- An indirect tax is a tax placed on goods or services. 1
- ▪

Solution 2

- It can be specific, i.e., a fixed amount per purchase or ad valorem, i.e., a
- % of the price charged by the retailer. 1
- ▪
- Allow references to the fact that it is seen as regressive if explained, OR
- accurate examples OR that it can be used to reduce consumption of
- demerit goods or raise revenue for governments. 1
- Award a maximum of two marks if no explanation of incidence.
- AO2 Analysis (max 3 marks)
- Of the possibility of passing the incidence from a producer to a consumer
- depending on PED. Note: a diagram is NOT essential but can be used, to

Solution 2

- assist an explanation in words, the possibility of passing the incidence from a
- producer to a consumer depending on PED.
-
  -
- The indirect tax has the effect of raising the price of the product or service
- by shifting the supply curve to the left. 1
-
  -
- Analysis of the impact on the incidence if the PED is elastic. 1
-
  -
- Analysis of the impact on the incidence if the PED is inelastic. 1
- AO3 Evaluation (max 2 marks)

Solution 2

- The extent to which it is possible to pass the incidence of tax onto the
- consumer depends upon the PED.
- For explained assessment that it is more possible to pass on the incidence of
- tax to the consumer if the PED is inelastic. Note: the second mark is
- reserved for a justified conclusion.
- 8
- 9708/24
- October/November
- 2025
- AO1 Knowledge and understanding

Solution 2

- 3
- AO2 Analysis
- 3
- AO3 Evaluation
- 2
- 9708/24
- October/November
- 2025

Solution 2

(b) Mark scheme

- Assess the extent to which a government should subsidise the
- production of merit goods to increase the consumption of these goods.
- Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table
- B: AO3 Evaluation to mark candidate responses to this question.
- AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
- Indicative content
- Responses may include:
- AO1 Knowledge and understanding and AO2 Analysis

Solution 2

- ▪
- An understanding of what is meant by a merit good and a subsidy and
- how this might increase the consumption of merit goods.
- ▪
- An analysis of the advantages and disadvantages (effectiveness) of using
- a subsidy (including the limitations, e.g., imperfect information.)
- ▪
- Advantages include the fact that subsidies lead to lower costs for
- producers which should lead to lower prices for consumers and therefore
- increased consumption whereas:

Solution 2

- ▪
- Disadvantages include the cost to the government and imperfect
- information which may mean that consumption does not increase despite
- lower prices
- ▪
- An analysis of the advantages and disadvantages of at least one
- alternative policy that may be used, e.g., information provision, direct
- provision, (together with their limitations.)
- Level 1 responses will be assertive and lacking in explanations/mainly
- descriptive and/or or mainly lacking in relevance to the question.

Solution 2

- Level 2 responses may contain some inaccuracies and may be one sided.
- Analysis will be explained at least in part and will be largely relevant to the
- question.
- Level 3 responses will consider alternative policies/concepts, etc. and will be
- balanced. Explanations of points raised will be offered and will be accurate
- and relevant to the question.
- AO3 Evaluation
- That considers the extent to which a government should subsidise the
- production of merit goods to increase their consumption and arrives at a
- reasoned and justified conclusion.

Solution 2

- A one-sided response cannot gain any marks for evaluation.
- Accept all valid responses.
- 12
- AO1 Knowledge and understanding and AO2 Analysis
- 8
- AO3 Evaluation
- 4
- 9708/24
- October/November
- 2025

Solution 2

- OR

Question 13

9708/11 J25 ▪ Q13 ▪ 1 mark

13 A ……1…… price set below the market equilibrium will cause a ……2…… of the product, and a ……3…… price set above the market equilibrium will cause a ……4…… of the product.

Which words complete gaps 1, 2, 3 and 4?

	1	2	3	4
A	maximum	shortage	minimum	surplus
B	maximum	surplus	minimum	shortage
C	minimum	shortage	maximum	surplus
D	minimum	surplus	maximum	shortage

Solution 13

Answer: **A**

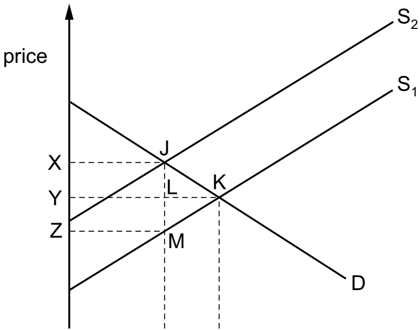
Why

- A maximum price below equilibrium keeps price too low, so demand exceeds supply – a shortage.
- A minimum price above equilibrium keeps price too high, so supply exceeds demand – a surplus.
- The key is that only a price *below* equilibrium binds as a maximum, and only one *above* it binds as a minimum.

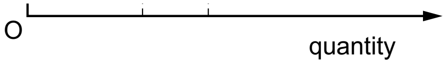
Question 14

9708/1 23 ▪ Q14 ▪ 1 mark

14 The diagram illustrates the effects of placing a specific indirect tax equal to JM on a good.



Question 14



Which area represents total tax receipts?

A JKM **B** XJKY **C** XJLY **D** XJMZ

Solution 14

Answer: **D**