Question 10 (Answer: **C**)

- A buffer stock scheme works by storing surplus output in good years and releasing it in bad ones.
- So the good must be *non-perishable* and cheap to store.
- A perishable good cannot be held, which is why buffer stocks fail for fresh produce.

Question 10 (Answer: **D**)

- Price elasticity of supply measures the responsiveness of quantity supplied to price.
- A 5% price rise brings the biggest output increase where PES is largest.
- So multiply 5% by each firm's PES and pick the greatest.

Question 6 (Answer: **A**)

- Price elasticity of supply depends on how easily output can be changed.
- Holding stocks lets a firm respond to a price rise at once, so supply is more elastic.
- The share of income spent, or the price of substitutes, affect *demand* elasticity instead.

3	• A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. • The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. • Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. • Responses are well-organised, well-focused and presented in a logical and coherent manner.
2	• Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. • The response addresses the general theme of the question and the relevant economic issues, with limited development. • Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. • Responses are generally logical and coherent but are sometimes lacking in focus or organisation.
1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.
0	No creditable response.

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2 4(b)** and **5(b)**.

Level	Description
2	• Provides a justified conclusion or judgement that addresses the specific requirements of the question. • Makes developed, reasoned and well-supported evaluative comment(s).
1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.
0	No creditable response.

Question	Answer
1(d)	**Assess whether the costs of inflation are always likely to be greater than the benefits of inflation for the US.** **Up to 4 marks MAX for analysis of both benefits and costs** **Up to 3 marks for analysis of** the possible benefits of inflation, e.g., it may be a sign of economic growth and may encourage businesses to produce more and therefore reduce levels of unemployment etc. if the inflation rate is low and stable. Also, borrowers may gain. **Up to 3 marks for analysis of** the possible costs of inflation, e.g., menu and shoe leather costs, lenders may lose, fiscal drag, reduced international competitiveness etc., if the inflation rate is high or becomes prolonged. This may result in reduced investment due to uncertainty. **Up to 2 marks for evaluation of positive and negative effects**, e.g., it will depend on the level of inflation and whether it is likely to be prolonged. It also may depend on the rate of inflation in other countries. **Reserve 1 mark for a justified conclusion.** **Note:** evaluation should be in the context of the US to gain any credit. For example, the data suggests that inflation in the US is largely the result of rising AD and less due to rising costs of production. Any valid evaluation must reflect this.
1(e)	**Assess the extent to which maintaining interest rates at a high level will be the best policy for the US to control inflation.** **Up to 4 marks MAX for analysis of both advantages and disadvantages** **Up to 3 marks for analysis of** the possible advantages of maintaining interest rates at a high level, e.g., it is a contractionary demand policy that will reduce AD by reducing consumer expenditure and investment. This should lower inflationary pressure and keep inflation rates lower. **Up to 3 marks for analysis** of the possible disadvantages, e.g., it may reduce economic growth and increase unemployment if the policy is maintained for a long period of time. It may reduce international competitiveness if it leads to an increase in exchange rates. It may also not be appropriate if the cause of inflation is due to cost push factors, **Up to 2 marks for evaluation of the** advantages and disadvantages of maintaining interest rates at a high level to control inflation in the US. This may also include an assessment (although this is not essential) of other policies such as supply-side policy may be less damaging and fiscal policy. It also depends on the timescale. **Reserve 1 mark for a justified conclusion.** **Note:** evaluation should be in the context of the US to gain any credit. For example, the data suggests that inflation in the US is largely the result of rising AD and less rising costs of production. Any valid evaluation must reflect this.

Question	Answer
2(a)	AO1 Knowledge and understanding
	AO2 Analysis
	AO3 Evaluation

Question	Answer
2(b)	**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** • 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:** • 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. **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. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.
	AO1 Knowledge and understanding and AO2 Analysis
	AO3 Evaluation

3(a)	**Explain what determines elastic and inelastic price elasticity of supply (PES) <u>and</u> consider the extent to which the value of PES may differ between an agricultural good and a manufactured 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. **AO1 Knowledge and Understanding (max 3 marks)** • For an accurate definition (with reference to the responsiveness of supply to a % change in price) **or** formula for PES **(1)** • For an explanation of what is meant by **both** an elastic and an inelastic PES (with reference to the responsiveness of supply to a % change in price) **(1)** • An explanation of at least **one** factor that determines whether a good has an elastic or inelastic PES, e.g., time, stock levels, perishability **(1)** **AO2 Analysis (max 3 marks)** • An explanation of the factors that explain the PES for agricultural goods, e.g., an explanation that they are more likely to be inelastic due to, e.g. time taken to produce, the difficulty of holding stocks etc. **(up to 2 marks)** • An explanation of the factors that explain the PES for manufactured goods, e.g., an explanation that the value may be more elastic due to, e.g. spare capacity, ability to store unfinished and finished goods, time taken to produce. **(Up to 2 marks).** **AO3 Evaluation (max 2 marks)** For an evaluation as to the extent that the value may differ, e.g., due to their perishable nature, agricultural goods may be more PES inelastic unless better ways can be found to store them. **Note: the second mark is reserved for a justified conclusion.**
	AO1 Knowledge and understanding
	AO2 Analysis
	AO3 Evaluation

3(b)	**Firms will often try to estimate elasticity values to judge the possible success of decisions to change prices or to introduce new products.** **Assess the extent to which an understanding of income elasticity of demand (YED) may be more useful than cross elasticity of demand (XED) in increasing the income from sales for a firm.** 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** • An understanding of the concepts of YED and XED. • YED can be used to predict the demand for different categories of goods depending on changes in income. • It can therefore be used to predict changes in possible sales revenue. • XED can be used to predict changes in revenue depending on whether it is a complement or a substitute and the closeness of the relationship. • It can then be used to predict sales revenue depending upon the actions of other businesses in setting their prices. • An assessment of the limitations of both measures, e.g., they are estimates and will change over time. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **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. **Unless the answer is directly related to increasing the income from sales for a firm, then award a maximum of mid-Level 2 marks.** **AO3 Evaluation** Of the extent to which the knowledge of YED is more useful than XED in increasing sales revenue and arrives at a reasoned and justified conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.
	AO1 Knowledge and understanding and AO2 Analysis

3(b)	AO3 Evaluation

A-Level Economics: **s25 11**

Question 8 (Answer: **D**)

- Price elasticity of supply depends on how quickly output can be adjusted.
- A crop takes a whole growing season, so output cannot respond to a price change in the short run.
- Manufactured goods can be produced faster and stockpiled, so their supply is more elastic.

A-Level Economics: **s25 12**

Question 8 (Answer: **A**)

- In the short run some factors are fixed, so output cannot change much – supply is inelastic and the curve is steep.
- In the long run all factors can be varied, so supply is more elastic and the curve is flatter.
- So the same price rise brings a bigger output response in the long run.

A-Level Economics: **Specimen 1**

Question 8 (Answer: **C**)

- A price elasticity of supply of 0.3 is less than one, so supply is inelastic.
- That means the firm cannot easily raise output when price rises.
- So it is close to full capacity – unused capacity would make supply *elastic*.