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Question 1 (Answer: **A**)

- Moral hazard is about behaviour *after* an agreement is made.
- Knowing that someone else bears the cost, a party takes more risk than they otherwise would.
- Asymmetric information *before* the agreement is adverse selection, which is a different problem.

Question 6 (Answer: **A**)

- Cost–benefit analysis compares *all* costs and benefits, including external ones.
- The recommendation follows from whether total social benefit exceeds total social cost.
- Private profitability alone is not enough, since the pollution is an external cost.

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Question 7 (Answer: **D**)

- MR = 0 is the output at which total revenue stops rising.
- So the firm is maximising *revenue*, not profit.
- Profit maximisation is at MC = MR, which is at a lower output whenever MC is positive.

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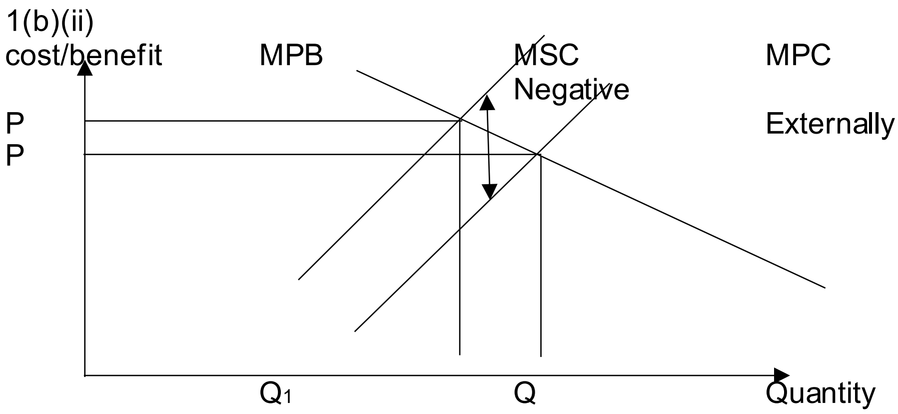
1	• A small number of relevant knowledge points are included and the respons is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such diagrams and formulae, where necessary, may contain significant errors be omitted completely. • Responses show limited organisation of economic ideas.
0	No creditable response.

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.

1(a)	**Explain the meaning of ‘allocative and productive efficiency’.** Allocative efficiency is when firms produce what consumers want **(1)** MC=AR/MC =P. **(1)** Productive efficiency is producing goods and services with the least use of resources. **(1)** Production on the lowest average cost curve/ minimum average cost/AC =minimum **(1)** Producing on the PPC **1**
1(b)(i)	**Explain what is meant by a negative production externality.** A cost **1** that is born by someone other than the producer of the good/a third party **1**
1(b)(ii)	**Identify from the extract, a negative production externality resulting from steel production.** Noise, dirt or polluted air **1** **Max 1 mark**
1(b)(iii)	**Explain, with the aid of a diagram, the consequences for output and price if the steel market is required to take into consideration negative production externalities.**  Labels **1** Axes **1** and explicit indication of negative externality **1** Comment: Quantity falls from Q to Q_1 **1** and Price increases from P to P_1 **1** Welfare loss explained **1**

1(c)	**Consider whether 'a monopoly always operates against the interests of the consumer'.** In favour of monopoly : • Economies of scale **1,** + explanation **1** • Investment in research and development **1,** + explanation **1** Natural monopoly e.g. railways **1,** + development **1** **Max 4** Against monopoly: Loss of productive efficiency **1** + explanation **1** Loss of allocative efficiency **1** + explanation **1** Lack of dynamic efficiency**1** + explanation Or: A diagram showing the loss of allocative and productive efficiency Axes/Labels **1** correct costs and revenues **1** loss of AE **1** loss of PE **1** **Max 4** **Max 7 for argument** Conclusion: **1**