



Edexcel A-level Economics exam practice answers

3: Market failure

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- (a) Private costs are costs to owners of oil freighters: wages of workers; cost of freighter; energy to power freighter.

External costs are costs to third parties not part of the transaction, e.g. lost revenue to hotel owners; lost revenues to other firms dependent on tourism. [4]

- (b) Correct answer D: social costs are greater than private costs. [1]

- 2 (a) Two characteristics of public goods: non-excludability and non-rivalrous. [4]

- (b) Correct answer C: public goods are under-provided by the private sector. [1]

- 3 Outline answers:

- (a) Definition of opportunity cost. Possible examples include new hospitals; new infrastructure, e.g. roads, rail links. [5]

- (b) **KN:** 2 marks; **AP:** 2 marks; **AN:** 2 marks; **EV** 2 marks

Health education is excludable, i.e. it is possible to prevent people from using this service through, for example, the requirement to pay fees. Further, it is rivalrous, i.e. use by one person restricts use by others. However, a government might provide unlimited amounts of healthcare free to users e.g. NHS [8]

- (c) **KAA:** 8 marks; **EV:** 4 marks

Reasons might include: misinformation about possible harm from vaccination; ignorance of the potential benefits; herding- people following other peoples' decisions; ignorance about the possible likelihood of illness from not having the vaccine.

Evaluation: **This might change in long-run as people become more aware of the benefits of vaccination. 10% of children not vaccinated is very significant and could result in large outbreaks of e.g. measles.** [12]

- (d) **KAA:** 16 marks; **EV:** 9 marks

Definitions of private and external benefits. Private benefits include better health and no disabilities resulting from catching disease. External benefits include less pressure on health service, less absenteeism from work, higher economic growth, and less government expenditure on those with health issues from not having the vaccine. Use of data to illustrate potential benefits. External benefits diagram including welfare triangle.



Evaluation: uncertainty of value of private benefits, e.g. because of difficult to estimate risks of not having vaccine. Difficult to quantify external benefits in monetary terms. [15]

(e) **KAA:** 16 marks; **EV:** 9 marks

Case for increased private provision of healthcare:

- More efficiency because of profit motive and competition
- incentive for healthcare providers to be more responsive to the market e.g. by providing more facilities for treatments on courses that are in high demand
- the hospitals can use the revenue to improve facilities, employ better-quality staff
- government will have more resources to reduce the budget deficit or to spend in other areas in the economy
- patients can demand more contact time

However:

- fees might deter people from seeking medical attention when they really need it
- it might lead to significant decline in the health of low-income families
- some hospitals/medical centres might go bankrupt if they fail to attract enough patients
- the range of treatments might be reduced if they are uneconomic [25]