

*Edexcel A-level Economics exam practice answers*

4: Government intervention

- 1 (a) Correct answer D: government failure. [1]
(b) Two sources of government failure are: high administrative costs; information gaps. [4]

- 2 (a) Diagram showing the maximum price below the equilibrium price. [2]
(b)
$$\text{PED} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} = \frac{-2}{10} = -0.2$$
 [2]

- (c) Correct answer D: An increase in the availability of land for apartments. [1]

- 3 Outline answers:

- (a)
$$\text{PED} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} = \frac{-12}{13} = -0.92$$

This indicates that demand is price inelastic. [5]

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

$$\text{XED} = \frac{\% \text{ change in quantity demanded for Coke Zero Sugar}}{\% \text{ change in price of sugary soft drinks}}$$

These products are substitutes. Therefore, the XED will be positive.

However, the 50% increase in demand for Coke Zero Sugar suggests that they are very good substitutes. [8]

- (c) **KAA:** 6 marks; **EV:** 4 marks;

Analysis: a fall in sugar prices will reduce the cost of producing biscuits. Therefore the supply curve will shift to the right and the price of biscuits will fall. A diagram to illustrate this could be included.

Evaluation: the extent of the price fall will depend on the extent to which the supply curve shifts and also on the price elasticity of demand. If demand is price elastic, then the impact on price will be less than if demand is price inelastic. The extent of the price fall will also depend on the proportion of the total cost of biscuit production is accounted for by the cost of sugar. [10]



- (d) **KAA:** 8 marks; **EV:** 4 marks The price of sugar has fallen because there is a decrease in demand (caused by the closure of factories) and an increase in supply. Therefore, the demand curve will shift to the left while the supply curve will shift to the right.

Evaluation: the extent of the price fall will depend on the extent to which the demand and supply curves shift and also on the price elasticities of demand and supply. If supply and demand are both price elastic, then the impact on price will be less than if demand and supply are price inelastic. The price fall might be short run only, for example, if the next harvest is very low or if the price of oil rises and more sugar is used to produce ethanol.

[12]

- (e) **KAA:** 9 marks; **EV:** 6 marks

- Definitions of external costs.
 - Examples of external costs: drainage issues impacting local landowners; loss of habitats for wildlife; loss of fish (affecting fishermen); land erosion affecting other farmers and landowners.
 - Diagram illustrating the external costs of production and identifying the free market output and the socially efficient output.

Evaluation:

- Difficulty of identifying the external costs.
- Difficulty of assessing the magnitude of the external costs.
- External costs might change over time.
- Farmers might be able to change production methods to reduce external costs.
- External benefits might offset some of these external costs e.g. higher tax revenues for the government enabling it to address some of the above problem.

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

Case for a tax on products containing a large amount of sugar:

- reduction in obesity
- reduction in diabetes
- reduction in tooth decay
- lower costs for NHS
- less absenteeism
- higher productivity
- Tax revenue to the government that may be used for health services

Diagram showing leftward shift in supply curve for products containing a large amount of sugar

Evaluation:



- Limited impact if demand is very price inelastic
- Other factors might be more significant than sugar for health impact, e.g. lack of exercise.
- Impact will depend on level of tax imposed on sugar
- Increase in price of many foods may particularly affect those on lower incomes.
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