



AS

ECONOMICS

7135/1 Paper 1 The Operation of Markets and Market Failure
Report on the Examination

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General Comments

Section B

There was a fairly even split between the two context questions with 61% of students opting for Context 1 and 39% opting for Context 2. Although there were some pleasing answers to Context 1, on average, students performed marginally better (by approximately 1 full mark) on Context 2 than Context 1. This may well be that the dental care context and related 25 mark essay was seen by students as a more accessible and therefore easier option.

The overall level of responses suggests that students still lack confidence with and struggle somewhat with the economics of market failure and the finer nuances of how markets and interrelated markets work.

It is pleasing, however, to be able to report that many of the students entered for this fourth examination sitting of the new AS level Economics specification performed well. Good knowledge and understanding of economic terminology, concepts and principles was often demonstrated but analysis was not always as well developed, despite good (on occasions rather extensive) use of the context material. The analysis attempted by some of the students with weaker responses was often unconvincing, particularly in respect of explaining the economics of a market failure and the dynamic nature of the price mechanism.

In order to further develop students' analytical skills many would benefit from being provided with as many opportunities as possible to demonstrate a fuller understanding of economics in a wide variety of real world situations. This could be through discussion as well as by way of written responses to questions set by the teacher. Embedding logical chains of reasoning into the analysis, using the full economist's toolkit when referencing real world contexts is crucial.

Some key concepts were not fully understood. For example, the terms 'composite demand', 'competitive supply' and 'derived demand' were often used incorrectly or their use was suspect. Other economic concepts were not used with sufficient precision and accuracy, some of which are indicated below. To communicate clearly and to avoid mistakes that lead to invalid conclusions, it is important that students acquire a firm grasp of basic economic principles.

Many students made extensive use of diagrams in their answers. However, some of these diagrams were not explicitly used or were inaccurate or not labelled correctly; students should be aware that credit is unlikely to be given for a poor diagram. Where appropriate, the use of suitable, fully-labelled diagrams should be encouraged. However, they should only include a diagram when it is relevant to the question and adds value to the response.

At least 15 per cent of the marks at AS level depend on a student's ability to demonstrate quantitative skills. When asked to perform a calculation, students would be well advised to show their working as part-marks were awarded for the correct method even if the final answer is incorrect.

Selective use of the extracts should also be encouraged. The extracts are there to help the student respond to the questions and can be used to help support judgements. When answering the last part of each context, the quality of the evaluation is a key determinant of the mark awarded. Good quality evaluation requires that judgements are supported by sound analysis and/or evidence. The evidence used to support judgements may be qualitative or quantitative. Some evidence is included in the extracts, but it must be used appropriately. Combining evidence from different extracts is one way of strengthening the quality of evaluation. Sound, fully developed analysis

should be an essential element of students' responses to the last two parts of each context question. In the last part, good analysis is the foundation for good evaluation; they go together. Some of the weaker answers to the last part of Context 1, used the extracts extensively but were weak because the underlying economic analysis was missing.

Good students evaluated as they worked their way through their answers to the last part of the context questions but only the very best students provided a convincing, well-developed, supported conclusion. It is a difficult skill that students need to practise. One way to improve the quality of students' evaluations is for teachers to provide their students with a good answer to a question which has had the conclusion removed. Students could then be asked to write their own conclusion to help them develop the skill of producing a supported final judgement.

Context 1: Palm Oil**Question 21**

A large number of students (73.35%) were unable to provide a full and precise definition of specialisation, given at least two categories were required for a Level 3 response. Many students included only one category, typically referencing 'labour' or 'workers' rather than a firm or a country. This was somewhat surprising given the obvious cue in Extract B. There was evidence that students confuse specialisation with the division of labour. Weaker students, typically only achieving a Level 1 response repeated the word specialisation in their definition which limited their response to fragmented points only.

Question 22

Given the increased emphasis on quantitative skills, it was disappointing that many students (59.19%) were not able to achieve full marks on this question. The two-part calculation certainly proved more challenging than in previous years; but the mark scheme still rewarded an understanding of the process even if the answer was incorrect. Whilst fewer students lost marks for incorrect or missing units and/or rounding errors, many responses incorrectly gave the correct answer for palm oil on 6 hectares or for the correct answer for sunflower on 4 hectares. 42.46% of students scored just 1 mark.

Question 23

The important principle for this question is that students need to identify and clearly state a significant feature which must be supported by accurate use of the data. For students who have been taught the correct technique for this question, it posed few difficulties - nearly 50% of students gained full marks. The most common response was to highlight, in the first point, the highest certified sustainable production area in millions of hectares, followed by the lowest certified sustainable production area in millions of hectares. Quoting the data without a significant feature will not gain any marks. Many students (just under 50%) were unable to identify two significant features and support this by accurate use of the data, with around 40% of students achieving only 2 marks or less for this question. As in previous years for this type of question, marks were lost due to the failure to use the correct units (million hectares) and/or the relevant dates. A reminder that the significant feature must refer to the whole period shown - students that mentioned the increase in production area up to 2015 as their first point and then the reduction in production area after 2015 as their second point were awarded zero marks. A margin of error was included when evaluating the figures that students had read from the data but it was still the case that some students do not read the data as precisely to fall within tolerance.

Question 24

Many students (63.42%) scored full marks on this question with the vast majority of students scoring either 3 or 4 marks. Most students recognised that the effects on the market for butter of a fall in the price of palm oil would shift the demand curve to the left. Most were able to accurately draw a demand and supply curve diagram showing the leftward shift in the demand curve with the correct axes, labels and coordinates. Students answering this question made fewer basic errors than seen in previous years. However, some lost marks by labelling the vertical axis 'Price level' rather than 'Price' and by labelling the horizontal axis 'Quantity demanded' rather than just 'Quantity' or 'Quantity demanded and supplied'. A small minority of students shifted both the demand and supply curves leftwards.

Question 25

This question is marked using a level of response mark scheme that assesses knowledge and understanding, application, analysis and evaluation. When awarding the mark, a judgement is made regarding the overall quality of the response.

Stronger students generally started their answers by contextualising what has happened to palm oil in recent years, growing populations in emerging countries, for example. They went on to demonstrate an understanding of the ‘food versus fuel debate’, explaining how palm oil is in composite demand (or has competitive supply), showing good logical chains of reasoning how the increased demand for palm oil used for biofuel is likely to affect the market for palm oil used for food which the extract material signposted very clearly. Good application was demonstrated by drawing on information provided in the extracts.

Best responses were able to explain how the supply of palm oil for fuel would fall as the demand for palm oil for fuel increases, often backed up by relevant diagrams. Demand and supply diagrams were more convincing than a trade-off/PPF diagram. If a student explained the effect on buyers and sellers and perhaps referenced the significance of elasticities, they were able to achieve Level 3 marks. Just over one third of students achieved a Level 3 mark.

Many level 2 responses took cues from the extracts but did not adequately develop the analysis and/or did not include reasonable application of economic principles or really made use of the data. Weaker responses did not really understand the inter-relatedness of the food and fuel markets and therefore were not able to articulate the more technical concepts of composite demand and/or competitive supply. Some tended to focus on the palm oil journey in very basic terms but were unable to support this with relevant economic analysis and instead applied a very general approach, often prevented them from going much beyond mid-level 2. Some students for example did not make a clear enough distinction between the effect on the ‘palm oil for food industry’ and the market ‘for food’ in general terms.

It was not necessary to include a diagram to achieve full marks for this question, but students should appreciate that, where appropriate, the use of a diagram can be useful in supporting their analysis. Diagrams are an important part of an economist’s toolkit and it is up to the student to decide when and how they might be usefully employed.

Question 26

This question was marginally less well answered than question 32. There were some strong responses and 77.57% of students were able to access at least Level 3 and provide some economic rationale for whether more should be done to control the palm oil industry.

Whilst many students explained what form this control might take; many did not evaluate and assess a case for whether ‘more’ should be done to control the palm oil industry. Given the nature of the question, this was a significant weakness.

Most students were able to recognise the prompt that the production and consumption of palm oil might be classed as a market failure. Good students recognised that palm oil could be seen as both a merit and a demerit good, before explaining that palm oil might have positive externalities in consumption and/or negative externalities in production. Some were able to provide appropriate and accurate diagrammatic analysis in this regard. That said, relatively fewer students were able to make genuine use of the diagram as part of their analysis.

Weaker responses did not make good use of the data and overall there was a lack of knowledge amongst these students as to how to assess the question in technical economic terms; many answers lacked depth of economic analysis. Weak responses tended to overuse the point about deforestation by lifting directly from the text without developing the analysis further or offering additional points that would include more sophisticated economic principles.

A large portion of students were able to use the case study to draw out the salient information regarding the importance of palm oil to consumers, producers and to particular countries, although relatively few were able to analyse in depth the pros and cons of intervention plus who gains and who loses.

Strong students not only discussed whether more should be done to control the palm oil industry but also discussed the alternatives; less or even no control. The work of the RSPO and the need for more international cooperation would have been appropriate prompts to use.

The extracts were used well by some students but could have been used better by many more. For example, Extract A provided some useful quantitative trend data to evaluate whether more should be done to control the palm oil industry. Similarly, students might have picked up just how important palm oil is to Singapore and/or Malaysia.

Few students picked up the nuances in the question about the palm oil 'industry' as a whole and the issue of 'should be done to control'. Most students talked about government control in general terms and how this would happen. The best answers included a well-developed and balanced conclusion. Only the strongest students discussed whether markets really know best and market failure versus government failure. Just under 8% of students achieved a Level 5 mark.

Context 2: Dental Care

Question 27

This question provided a very wide range of responses and therefore differentiated well. Only 20.78% of students were able to provide an accurate definition of a competitive market. A significant number of students struggled to effectively communicate the idea and features of “competitive” as opposed to “perfectly competitive”, or that it was simply a market where firms were trying to outdo their rivals. A good Level 3 student response typically listed: a large number of buyers and sellers, low barriers to entry and exit and good market information. Many students simply listed the features of perfect competition which limited them to 2 marks - nearly 70% of students scored 2 marks.

Question 28

Most students (59.22%) were able to calculate, to the nearest child, the number of children expected to be admitted to hospital because of tooth decay. However, some made avoidable mistakes by, for example, not rounding to the nearest child – rounding up or down was acceptable. In some cases, students did not add the increase to the original number of children or only calculated the original number of children. Students who used the correct method/calculation but got the wrong answer were awarded 2 marks. 36.57 students scored 1 mark or less.

Question 29

This question posed few difficulties with 42.22% of students awarded full marks. As in the equivalent, question 23, the most common response was to highlight in the first point the highest number (the North) of courses of dental treatment per 100,000 population, followed by the lowest number (London) of courses of dental treatment per 100,000 population for the second point. Many students omitted ‘per 100,000 population’ as a unit of measurement - this must be quoted for each comparison. Although a margin of error was included in the mark scheme many students did not read from the data accurately enough and fell out of tolerance.

Question 30

The majority of students (66.11%) scored full marks on this question with just over 81% scoring either 3 or 4 marks. Most students recognised that the effects on the market for UK dental care of a fall in the price of dental care abroad would shift the demand curve to the left. Most were able to accurately draw a demand and supply curve diagram showing the leftward shift in the demand curve with the correct axes, labels and coordinates. Students answering this question made fewer basic errors than seen in previous years. However, some lost marks by labelling the vertical axis ‘Price level’ rather than ‘Price’ and by labelling the horizontal axis ‘Quantity demanded’ rather than just ‘Quantity’ or ‘Quantity demanded and supplied’. A small minority of students shifted both the demand and supply curves leftwards.

Question 31

It is worth re-emphasising that this question and the equivalent question 25 are assessed using a level of response mark scheme. It is the overall quality of the response that determines the mark awarded.

Overall, there were some strong responses to this question and typically very similar to economic analysis seen in question 25. One in ten students achieved full marks and just over a third of the

students provided a competent response to this question, achieving at least the bottom of Level 3. Strong responses identified how the demand for dentists is derived from the demand for dental care and were able to analyse the impact of increased demand for dental care on the supply of and demand for dentists. Good students also made effective use of the extracts.

A typical approach was to take the growing population from the stem as a reason why the demand for dental care has increased. Shifting the demand curve for dental care provided students with the opportunity to then develop logical chains of reasoning explaining the impact on the market for dentists. Many students limited their discussion to the impact on the dental industry in general terms without explicit reference to the impact on dentists. Most answers were clearly rooted in the case study with discussion clearly linked to the source material, but it was not uncommon to see students making no reference to dentists.

As ever, weaker students tended to quote extensively from the extract material without really developing the discussion. Anecdotal references to 'Dentaid' and 'Dental Tourism' were not well rewarded and made it difficult to apply economic concepts and meant several students' responses were vague and generalised.

Although diagrams were a feature of most responses, many are drawn without explicit reference to them in the analysis; some were poorly drawn and often poorly labelled. Diagrams are an important part of an economist's toolkit and it is up to the student to decide when and how they might be usefully employed.

The very best answers combined extract material with sophisticated and robust economic analysis.

Question 32

Although this question produced a wide range of responses, there were some very accomplished and thoughtful answers to this question. 39.22% of students achieved at least a Level 4 response.

The typical response to this question was for a student to discuss, at length, that the UK government should take more action to improve dental health due to dental care being a merit good and that poor dental health and dental care creates negative externalities. Most students went on to explain and analyse the ways in which the government can intervene. Students that then offered a rather generalised view about whether markets should be left alone because they are more efficient due to the market mechanism were able to get at least high level 3 or 4. Although this approach did not specifically address the nuances of the question, these responses did show a balance of understanding around intervention versus non-intervention and so these responses scored well.

Weaker answers usually expressed a very one-sided argument for intervention and then had a weak paragraph or so on why they shouldn't intervene, usually that it is costly for government. Many students explored the idea of government failure; however, many were rather vague on what this meant and typically suggested that if a policy had a limitation, that automatically constituted government failure. It would certainly be expected that if students explore government failure, they should recognise that the failure is deepened, or a new problem is created.

The best answers started by setting the scene, highlighting some of the recent changes in the dental care industry; many referenced and discussed the fact that dental care was offered by the NHS as well as privately. Students then explained the general case for whether the UK government should take more action to improve dental health in the UK. This

was often supported by a relevant diagram and quotes from the extracts identifying some of the stakeholders involved and the benefits generated by intervention and more action.

The stem that accompanied the question alluded to whether the UK government should take 'more action' to 'improve' dental health, but few answers discussed the extent/degree of more action or the issue of 'improve'. Many answers were thus very policy focused rather than focusing on arguments for/against more government action. Good students assessed the relative merits of the alternative forms of government intervention; perhaps contrasting this with the benefits of a free market approach. Answers analysing and evaluating subsidies, education, taxation, attracting more dentists often fared well. Section 3.1.5.8 of the AS specification makes a clear distinction between various types of government intervention and students should understand the difference between them.

Relatively few students drew upon the notion that the current system is still 'fit for purpose' and only the strongest students were able to provide a detailed assessment of the free market and associated price mechanism.

Diagrams were not used as much as they were in question 26, but students appeared to recognise that in this question the diagrams did not necessarily add a huge amount of value unless used effectively. Those that used diagrams such as subsidies to show the effect on prices and opportunity cost did so effectively.

The judgement here seemed to be more straightforward with most students deciding that the UK government should take more action but with some caveats. The application and use of the context was pleasing overall with multiple direct quotes being used.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.