

Question	Answer	Marks	Guidance
1(a)	<p>For knowledge and understanding of</p> <ul style="list-style-type: none"> • public goods in terms of non-excludability and non-rivalry (Up to 2 marks) <p>and</p> <ul style="list-style-type: none"> • private goods in terms of excludability and rivalry in consumption (Up to 2 marks) <p>For application showing why profit can be made in the supply of private goods (Up to 3 marks) but not in the supply of public goods because of the free-rider problem that means that a price cannot be charged (Up to 3 marks).</p> <p>(4 marks maximum for application)</p>	8	<p>Public goods, in contrast to private goods, are non-excludable and non-rival (and non-rejectable). As a result if they were provided by the private sector there would be the free-rider problem meaning that no profit could be made from their provision.</p>
(b)	<p>For analysis:</p> <ul style="list-style-type: none"> • explaining how maximum prices might work to increase provision with due reference to the strengths and weaknesses of this approach. (Up to 6 marks) • explaining how education campaign might work to increase provision with due reference to the strengths and weaknesses of this approach. (Up to 6 marks) <p>(8 marks maximum for analysis)</p> <p>For evaluation assessing which is the most effective in increasing consumption with due reference to the strengths and weaknesses explained in the analysis. (Up to 3 marks) and providing a reasoned conclusion (1 mark)</p>	12	<p>Merit goods are under-consumed because of incomplete information.</p> <p>The question relates to the under-consumption of merit goods and successful answers will focus upon the way in which policies can increase consumption as required. References to price are only relevant as they relate to the quantity consumed.</p> <p>Maximum prices set the price of the merit good below equilibrium so that the merit good becomes more affordable. This will make consumers more willing to buy, but a shortage will develop so quantity consumed will actually fall unless the government takes further action such as subsidising production.</p> <p>Education campaigns are designed to improve information and as a result increase the demand for the merit good, raising price and leading to an extension in supply. The weakness of this method is that these campaigns tend to be expensive and they may not be successful if poorly designed.</p>

2(a)

8

For knowledge and understanding of the role of the factor enterprise:

- For bearing the risk of production (Up to 2 marks)
- For organising the other factors of production (Up to 2 marks)

(4 marks maximum)

For application:

- An accurate demand and supply diagram will show an increase in demand, a rise in price and an extension in supply.
- The diagram will have an accompanying explanation of how enterprise, motivated by profit, allocates more resources to the production of this good.

(4 marks maximum)

The factor enterprise has two roles in a market economy. One is taking the risk of production, the other is organising the other factors in the production process. The reward for contributing to production is profit. If there is a rise in the demand for a good in a market economy, its price will rise. The factor enterprise will respond by expanding production in pursuit of more profit. The quantity of goods in the market will expand along the industry supply curve.

An 'accurate' diagram will have axes and curves labelled correctly, the shift in the demand curve will be correct and there will be an extension in the quantity supplied.

In awarding marks for application allow Up to 3 marks for the diagram. One mark should be reserved for an explanation of the role of enterprise in allocating resources to the production of the good.

Please note that some knowledge and understanding of the role of enterprise might be shown in the candidate's explanation of how enterprise responds to an increase in the demand for a good. They might, for example explain how enterprise manages the other factors as the demand for a good increases.

Question	Answer	Marks	Guidance
(b)	<p>For analysis</p> <ul style="list-style-type: none"> of any method of increasing the provision of merit goods such as direct provision or subsidies explaining the strengths and weaknesses of each approach selected (Up to 6 marks for each method) <p>(8 marks maximum)</p> <p>For evaluation that assesses and compares</p> <ul style="list-style-type: none"> the relative strengths and weaknesses of each approach (3 marks) to reach a conclusion concerning which policy is more likely to be effective (1 mark) <p>(4 marks maximum)</p>	12	<p>A number of methods are used to increase the supply of merit goods in a mixed economy. These include direct provision, producer subsidies and education campaigns to increase the demand for the merit good. Each has advantages and disadvantages based Upon for example, the cost of provision, the time period under consideration and the difficulty in implementation. The mark scheme indicates that candidates need to explain two methods to obtain full marks for the analysis. This should include the strengths and weaknesses of each approach. They then need to provide evaluative comment to reach a conclusion on which method is likely to be most effective.</p>

1.D	6.A	11.D	16.A
2.A	7.C	12.A	17.C
3.C	8.B	13.A	18.D
4.B	9.B	14.A	19.B
5.C	10.D	15.A	20.C