



GCE

Economics

H060/01: Microeconomics

AS Level

Mark Scheme for June 2024

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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MARKING INSTRUCTIONS

PREPARATION FOR MARKING

RM ASSESSOR

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training*; *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log-in to RM Assessor and mark the **required number** of practice responses (“scripts”) and the **number of required** standardisation responses.

YOU MUST MARK 6 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the RM Assessor messaging system, or by email.
5. **Crossed Out Responses**
Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add a tick to confirm that the work has been seen.
7. Award No Response (NR) if:
 - there is nothing written in the answer space

Award Zero '0' if:

- anything is written in the answer space and is not worthy of credit (this includes text and symbols).

Team Leaders must confirm the correct use of the NR button with their markers before live marking commences and should check this when reviewing scripts.

8. The RM Assessor **comments box** is used by your team leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**
If you have any questions or comments for your team leader, use the phone, the RM Assessor messaging system, or e-mail.

9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.
10. For answers marked by levels of response:
- To determine the level** – start at the highest level and work down until you reach the level that matches the answer
 - To determine the mark within the level**, consider the following

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. Annotations

Annotation	Meaning	Standard Annotations for all papers	
	Correct – mark awarded		Must be used on all blank pages of QP and additional objects
	Incorrect		Noted but no credit given
	Benefit of doubt	Off Page comments	Should only be used by Team Leaders for training purposes
	AO1 – Knowledge and understanding		To highlight text within candidate responses
	AO2 – Applying knowledge and understanding		
	AO3 – Analyse		
	AO4 – Evaluation		
	Not answering question		
	Too vague		
	Own figure rule		
	Confused		
	Unclear		

12. Subject Specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends.

This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should also ensure that you are familiar with the administrative procedures related to the marking process.

These are set out in the OCR booklet **Instructions for Examiners**.

If you are examining for the first time, you must carefully read **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

You must ask for help or guidance whenever you need it.

Your first point of contact is your Team Leader.

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

If a candidate has written two answers for Section C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME

Study this Mark Scheme carefully.

The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades.

Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers.

The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after a wide range of scripts are reviewed.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way.

The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed.

Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking.

Mark these answers according to the marking criteria.

Carefully read all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range.

Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:

A: INDIVIDUAL ANSWERS

- 1 The indicative content indicates the expected parameters for candidates' answers but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Using 'best fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
 - Highest mark: If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
 - Lowest mark: If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
 - Middle mark: This mark should be used for candidates who are secure in the band. They are not 'borderline', but they have only achieved some of the qualities in the band descriptors.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B: TOTAL MARKS

- 1 The maximum mark for the paper is 60.
- 2 The quality of the extended response is assessed on this part of the question paper which is identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response, and it must be considered when determining the mark to be awarded within the appropriate level.

UPDATED

Levels of response / Level descriptors	Knowledge and understanding (AO1)	Applying knowledge and understanding (AO2)	Analysis (AO3)	Evaluation (AO4)
Strong	Precise knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using relevant and focussed examples fully integrated and good use of data where appropriate.	<p>Correct analysis with consistently well-developed links through a coherent chain of reasoning which addresses the question. Any relevant diagram(s) are predominantly correct with no significant errors that affect the validity of the analysis.</p> <p>Any diagram(s) must be integral to the analysis.</p> <p>An explanation of causes and consequences, fully developing the links in the chain of argument.</p> <p>Multistage chains of reasoning used throughout when developing links.</p>	<p>A conclusion is drawn weighing up both sides, considering extent and alternatives and reaches a supported judgement.</p> <p>Counter argument(s) are fully developed.</p> <p>A supported judgement is reached.</p>
Good	Mainly accurate knowledge and understanding of economic ideas, principles, and models.	Ability to apply economic ideas to a specific context, using some relevant and focussed examples to the given context and scope of the question. Some good use of data where appropriate	<p>An explanation of causes and consequences, developing most of the links in the chain of argument.</p> <p>There will be mainly multi-stage chains of reasoning, but some may be less developed</p>	<p>A conclusion is drawn weighing up both sides/comparing alternatives but without reaching a supported judgement.</p> <p>Counter argument(s) are fully developed.</p> <p>A judgement may be reached but will be weak or unsupported.</p>

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Reasonable	Awareness of the meaning of economic ideas, principles, and models	Ability to apply economic ideas to some elements of the given context, although possibly inconsistent examples not always relevant to the given context and scope of the question. Some use of data where appropriate	<p>There is correct analysis in the form of single links. These address the question but are not developed into a clear chain of reasoning. Any relevant diagram(s) may be imperfectly labelled or not linked to the analysis.</p> <p>An explanation of causes and consequences, which omit some key links in the chain of argument.</p> <p><i>Chains of reasoning are attempted but not fully developed.</i></p>	<p>Some attempt to conclude, which shows some recognition of the influencing factors, but without considering extent and alternatives.</p> <p>Counter arguments are considered but not fully developed.</p>
Limited	Limited awareness of the meaning of economic ideas, principles, and models	Very little ability to apply economic ideas to some elements of the given context. Examples may be generic or irrelevant to the given context	<p>There is little evidence of reasoning that addresses the question asked. Simple statement(s) of cause and consequence are used. There is a lack of a clear structure. The relevant diagram(s) may not be present or are incorrectly labelled.</p>	<p>Unsupported statements or assertions, or no evaluation</p> <p>Counter arguments are simply stated.</p>

SECTION A

Multiple Choice Questions	Answers
1	B
2	A
3	D
4	A
5	D
6	A
7	A
8	B
9	B
10	D
11	C
12	C
13	C
14	D
15	B

Question		Answer	AO	Quantitative skills
1	B	Rationale: A Air pollution is an example of a negative externality B Correct: An example of a positive externality C Noise is an example of a negative externality D Traffic congestion is an example of a negative externality	1	
2	A	Rationale: A Correct: The country is now producing 200 less cars than previously B This is the new level of output of cars at point B. C This is the increase in the number of computers that are being produced D This is the new level of output of computers at point B.	2	Yes
3	D	Rationale: A Positive statement B Positive statement C Positive statement D Correct: Normative statement that is an opinion	2	
4	A	Rationale: A Correct: Has only one main purpose B Milk can be used in the production of a number of other products C Oil can be used in the production of a number of other products D Wood can be used in the production of a number of other products	2	
5	D	Rationale: A Increase in supply and reduction in demand B Increase in supply and increase in demand C Decrease in supply and decrease in demand D Correct: Reduction in supply and increase in demand	3	Yes
6	A	Rationale: A Correct: countries are trading partners and not economic agents B firms are a type of economic agent C governments are a type of economic agent D households are a type of economic agent	1	
7	A	Rationale: A Correct: Demand of 60 units whilst only 25 units are supplied B At price of £30, a total of 60 units are demanded C 25 units are supplied at a price of £30 D This is calculated with the 60 demanded added to the 25 units supplied at £30	2	Yes

Question		Answer	AO	Quantitative skills
8	B	Rationale: A Land is a factor of production B Correct: savings are not a factor of production C Enterprise is a factor of production D Labour is a factor of production	1	
9	B	Rationale: A Whilst the consumer may not pay, scarce resources could have been used in production B Correct: Scarce resources are not used in the production of free goods C This means the consumer does not pay but scarce resources may have been used D The consumer may not pay but scarce resources could have been used	1	
10	D	Rationale: A As rents fall demand will extend B Price will fall below equilibrium C Rental prices should fall as government has set a price below the current equilibrium D Correct: As rents fall fewer people will be willing to rent property out	2	
11	C	Rationale: A Market economy is one with minimal government intervention B Mixed economy is one which combines market and planned economic features C Correct: this is not an economic system, but applies to all economies D Planned economy is one which is largely directed by the government	1	
12	C	Rationale: A MPC shows only the private costs to the chemical manufacturer B This is the position of the market output without government intervention C Correct: the triangle represents loss to society D This price does not relate to any quantity	3	Yes
13	C	Rationale: A 25% increase in price divided by 30% increase in quantity supplied B 23.5% increase in quantity supplied divided by 20% increase in price C Correct: 30% increase in quantity supplied divided by 25% increase in price D 30% increase in quantity supplied divided by 20% increase in price	2	Yes

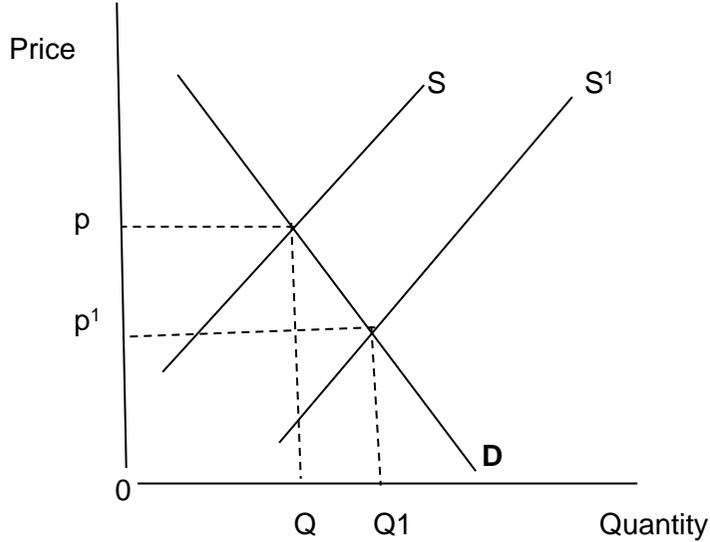
Question		Answer	AO	Quantitative skills
14	D	Rationale: A Costs should fall due to efficiency B Less equipment is required as workers only need the tools for the tasks they focus on C Workers may become bored as there is less variety of work D Correct: due to more efficiency more can be produced	1	
15	B	Rationale: A Currencies are not used in a barter economy B Correct: Goods are exchanged directly in a barter economy C Gold is not used as an intermediary medium in a barter economy D Money is not used as an intermediary medium in a barter economy	1	

SECTION B

Question			Answer	Mark	Guidance
16	(a)		<p>Using Fig. 1, state what percentage of non-meat eaters thought it was better for their health not to eat meat.</p> <p>30% (1)</p>	1	<p>Annotate with </p> <p>Accept 30 without the percentage sign</p> <p>Quantitative skills rewarded in this question</p>

Question			Answer	Mark	Guidance
16	(b)	(i)	<p>Using Fig.2, calculate the percentage increase in the number of people who signed up for Veganuary from 2017 to 2021</p> <p>$(510000 - 50\ 000) / 50\ 000 (1) \times 100$ $= 920\%(2)$</p> <p>Correct method (1)</p>	2	<p>Annotate with </p> <p>Accept figures between 505 000 and 515 000</p> <p>920% or 920 alone is worth 2 marks</p> <p>Award 1 mark (if student has the correct calculation and has not multiplied by 100)</p> <p>Quantitative skills rewarded in this question</p>

Question			Answer	Mark	Guidance
16	(b)	(ii)	<p>Using the income elasticity (line 25), explain how a fall in income will affect the demand for oat milk</p> <p>A fall in income of 10% will lead to a larger fall in demand for oat milk of 18% (2).</p> <p>Demand for oat milk will fall (1) proportionally more than the fall in income (1).</p>	2	<p>YED is 1.8</p> <p>Annotate with ✓</p>

Question			Answer	Mark	Guidance
16	(c)		<p>Using a diagram, explain how supermarkets may respond to the popularity of Veganuary</p> <p>Up to 3 marks for a diagram:</p> <ul style="list-style-type: none"> • Accurate labelling of axes (1) • Accurate labelling of curves with correct right shift of supply /demand curve (1) • Accurate label of old and new equilibrium (1) <p>Up to 2 explanation marks:</p> <ul style="list-style-type: none"> • Supermarkets will increase S from S to S1(1) • Price will fall P to P1(1) quantity consumed will rise Q to Q1(1) • Extend their supply (1) <p>Accept : Prices may rise as demand has risen (1)</p>	4	<p>Annotate with ✓</p>  <p>Accept diagram showing outward shift in demand</p> <p>Quantitative skills rewarded in this question</p>

Question			Answer	Mark	Guidance
16	(d)	(i)	<p>Using the value of cross elasticity of demand (lines 20-21), explain the relationship between oat milk and dairy milk.</p> <p>XED is positive therefore both products are substitutes/competitive demand (1). Value is 0.23 therefore relationship is weak (1).</p>	2	<p>Annotate with ✓</p> <p>Accept explanation of the meaning of substitutes: Increase in price of dairy milk will lead to increase in demand for oat milk (1)</p>

Question			Answer	Mark	Guidance
16	(d)	(ii)	<p>Explain how the change in demand for oat milk will affect the producer surplus of oat farmers.</p> <p>Demand/sales for oat milk has increased (by 345%) (1) leading to an increase in demand for oats (ingredient) (1) increasing price of oats (1) increasing producer surplus (1)</p> <p>Alternatively: Up to 3 marks for a correct diagram:</p> <ul style="list-style-type: none"> • Accurate labelling of axes and shifted D curve (1) • Accurate labelling of original producer surplus (1) • Accurate label of new producer surplus (1) 	4	<p>Annotate with ✓</p> <p>Candidate must recognise that oats are the raw material in the production of oat milk for 4</p>

Level / mark	Descriptor
Level 3 (7-10 marks)	<p>Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate.</p> <p>Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis.</p> <p>Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.</p>
Level 2 (4-6 marks)	<p>Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate.</p> <p>Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response.</p> <p>Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.</p>
Level 1 (1-3 marks)	<p>Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant.</p> <p>Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.</p> <p>Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement or the absence of a judgement.</p>
0 marks	Response is not worthy of credit

16e* Evaluate, using an appropriate diagram(s), the effects on farmers of an increase in demand for vegan products.

Question 16e Guidance

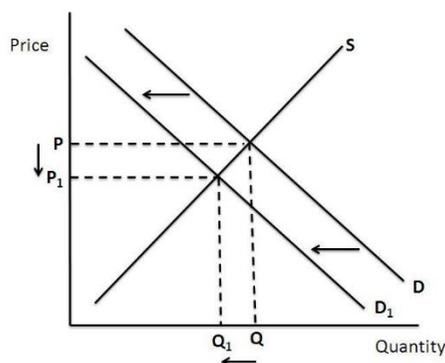
The side of the argument presented first should be credited as **Analysis** with the other side credited as **Evaluation**.

Application

- cross price elasticity of demand between oat and dairy milk is 0.23/substitutes/competitive demand
- oat milk sales rose by 345% between 2020 and 2022
- consumers are willing to pay a premium price for products that offer health benefits.

Analysis

A negative impact on meat/dairy farmers as demand may fall for these substitutes

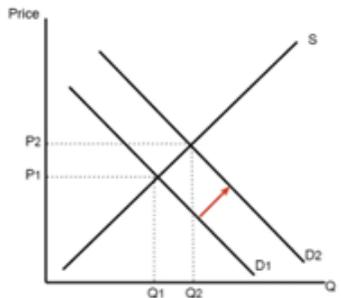


- demand will shift to the left (D to D_1) and falling quantity sold (Q to Q_1) will cause a reduction in price (P to P_1) decreasing farmers revenue
- there may be a fall in labour required
- animal farmers may be incentivised to diversify into crops used to produce dairy alternatives reducing supply of animal products.

Accept a PPF diagram illustrating the move from dairy to vegan output and opportunity cost impacts.

Evaluation

A positive impact on farmers growing crops such as oats with increased demand for their products.



- demand will shift right (D to D1) the increased consumption (Q1 to Q2) will increase prices (P1 to P2) increasing total revenue
- there may be a need to employ more labour to harvest the additional crops
- this could lead to increased supply and lower prices in the longer term

Possible Judgement(s)

- supply is inelastic in the short term as changing production takes time therefore SR no impact
- the overall effect depends upon the amount of change in demand and supply and the PED/PES

SECTION C

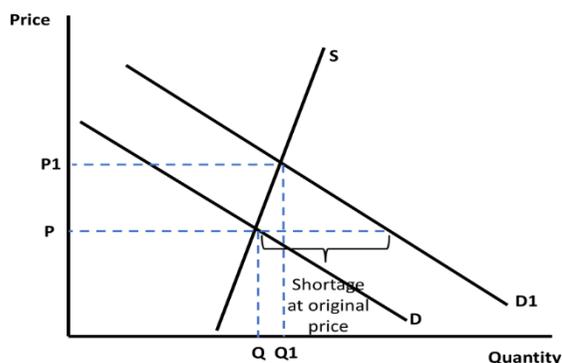
Level / mark	Descriptor
Level 4 (16-20 marks)	<p>Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Strong application of economic concepts to the context and scope of the question, which may include relevant examples or good use of data where appropriate. Strong analysis of the question characterised by consistently well-developed chains of reasoning; relevant diagram(s) which are accurate, integrated into the response and have no errors that affect the validity of the analysis. Strong evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; a logical and well supported judgement.</p>
Level 3 (11-15 marks)	<p>Good knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Good application of economic concepts to the context and scope of the question, or some good use of data where appropriate. Good analysis of the question characterised by some developed chains of reasoning beyond single links; relevant diagram(s) which are predominantly correct, integrated into the response and have no errors that affect the validity of the analysis. Good evaluation of different perspectives on the question characterised by well-developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.</p>
Level 2 (6-10 marks)	<p>Reasonable knowledge and understanding of relevant economic idea(s), principle(s) or model(s). Reasonable application of economic concepts to some elements of the given context and scope of the question, although possibly inconsistent or not always relevant. Relevant data may be referred to if / where appropriate. Reasonable analysis of the question characterised by undeveloped chains of reasoning in the form of single links; relevant diagram(s) which have errors that affect the validity of the analysis or are not integrated into the response. Reasonable evaluation of different perspective(s) on the question characterised by some developed chains of reasoning; consideration of counter arguments / assumptions / limitations of theory / factors that determine significance / extent; an unsupported judgement.</p>

Level / mark	Descriptor
Level 1 (1-5 marks)	<p>Limited knowledge and understanding of relevant economic idea(s), principle(s) or model(s).</p> <p>Limited application of economic concepts to some elements of the given context and scope of the question. Use of data may be generic or irrelevant.</p> <p>Limited analysis of the question characterised by reasoning that lacks a clear structure and / or does not address the question; simple statement(s) of cause and consequence; absence of relevant diagram(s) or diagram(s) which have errors / omissions that significantly affect the validity of the analysis.</p> <p>Limited evaluation of different perspective(s) on the question characterised by simple statement(s) related to counter arguments / assumptions / limitations of theory / factors that determine significance / extent, a stated judgement, or the absence of a judgement.</p>
0 marks	Response is not worthy of credit

17* Evaluate, using an appropriate diagram(s) the effectiveness of incentives in ensuring efficient resource allocation in an economy

Question 17 Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.



Knowledge and Understanding

- rational decision making
- objectives for economic agents – consumers/households, firms, and governments
- allocative efficiency producing the appropriate balance of goods and services (when $P=MC$)
- productive efficiency when operating at minimum cost ($AR=AC$)
- economic efficiency when productive and allocative efficiency are achieved

Application

- incentives in market, planned and mixed economies
- use of incentives in correcting market failure
- PPF efficient /inefficient allocations of resources
- consumer/producer surplus
- examples of government incentives such as subsidies

Analysis

- role of the price mechanism in signalling, incentivising and rationing resources
- rising price incentivises producers to increase supply due to the higher return on sales (rising producer surplus diagram)
- lower price acts as an incentive for households to increase consumption as cost has fallen relative to benefit (utility per pound spent rises) (rising consumer surplus diagram)
- incentives can be used by firms/governments to encourage /discourage consumption (externalities diagram)

Evaluation

- economic agents do not always respond rationally to incentives
- reasons for irrational behaviour - imperfect information, habit, time constraints
- government costs may be greater than benefits of the subsidy resulting in an inefficient allocation of resources

Judgement(s)

- depends on the value consumers/households place on the product versus the price
- economic agents may face conflicting incentives
- alternative factors maybe more important than incentives such as government popularity/ ideology

18* Evaluate, using an appropriate diagram(s) the effectiveness of government subsidies to encourage the production of goods such as agricultural products.

Question 18 Guidance

The side of the argument presented first should be credited as Analysis with the other side credited as Evaluation.

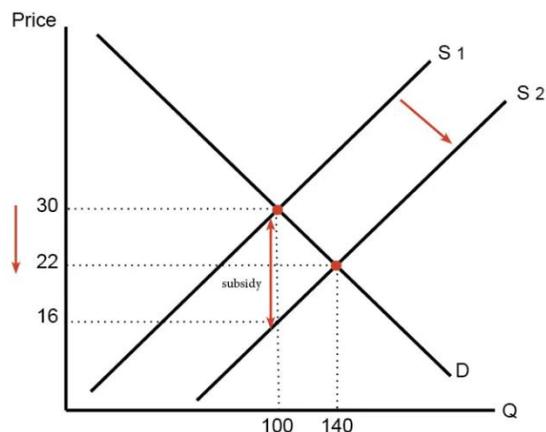
Knowledge and Understanding

- subsidies
- such policies are expensive and have an opportunity cost
- alternative policies such as minimum prices , buffer stock

Application

- demand and supply
- Common Agricultural Policy
- current issues with rising agricultural prices
- rising demand for plant-based foods

Analysis



- subsidy shifts supply from S1 to S2 and increases quantity consumed (100 to 140 units). Market price falls (£30 to £16) while farmers revenue increases
- increased revenue may encourage others to join the industry increasing supply leading to further falls in prices

Evaluation

- no guarantee that farmers would use the subsidy to increase supply
- government failure due to imperfect information may lead to an inefficient allocation of resources
- increasing capacity takes time, as supply is inelastic in the short term
- subsidy may encourage farmers to be less efficient and not cut costs of production/ innovate
- unintended consequences on other agricultural products
- alternative policies could be more effective such as regulation, information provision , direct government provision ,buffer stock

Judgement

- subsidies distort the price mechanism resulting in scarce resources not being allocated in the most optimum and efficient manner
- the overall impact depends upon the amount of the subsidy and the time frame for provision
- PED will determine the quantity consumed will rise encouraging/discouraging further increase in supply.

ASSESSMENT OBJECTIVES GRID

Question	AO1	AO2	AO3	AO4	TOTAL	(Quantitative Skills)
1-15	7	6	2		15	(5)
16(a)	1(1)				1	(1)
16(b)(i)	1(1)	1(1)			2	(2)
16(b)(ii)	1	1			2	
16(c)	2	2(2)			4	(2)
16(d)(i)	1	1			2	
16(d)(ii)	2	2			4	
16(e)*		1	4	5	10	
17*/18*	3	4(2)	6(3)	7(3)	20	(8)
TOTAL	18	18	12	12	60	18

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