A-LEVEL
ECONOMICS

7136/1 Markets and Market Failure
Report on the Examination

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General

This was the first sitting of an A Level paper by a full cohort of students since the disruption to examinations caused by the Covid pandemic.

The paper was taken by around 13 800 students. In Section A, Context 1, 'Flexible labour markets and trade unions', was slightly less popular than Context 2, 'The UK supermarket sector'. In Section B, Essay 3, the causes of inequality in the distribution of pre-tax incomes, and the best way to reduce inequality in disposable income, was slightly more popular than Essays 1 and 2.

Context 1

Question 1

Students were required to calculate the number of workers doing weekly platform work for each worker doing monthly platform work in 2019 to two decimal places. Less than half of students earned 2 marks, and almost as many scored 0 marks as they used an 'reversed denominator and numerator in the calculation' method. If students showed the correct method but the wrong answer, to two decimal places, they were awarded 1 mark. A mark was also available for a correct answer that was not rounded to two decimal places.

Question 2

For the 4-mark questions (questions 2 and 6) students needed to demonstrate that they understood how the data provided in the extract supported a particular proposition. They needed to provide *evidence* from the data, and then *clearly explain* how the data was evidence to support the proposition.

Here students were required to explain how the data in Extract A (Figure 2) showed that the incentive for workers to become self-employed increased over the period. The data showed the median after-tax real earnings of working-age employees and the self-employed over the period. Whilst definitions were not essential, they helped to support the explanations, for example, some students defined 'incentive', and/or 'income', or similar. In addition to a definition or brief explanation, in the best answers the students said what they *expected* to find to address the question, quoted accurate evidence from the data and then tied the answer up by saying how this evidence explained what had been asked for. The evidence quoted was often good, and in stronger responses students often calculated the percentage change in median incomes and referred to the relative changes. However, inevitably some students read the data inaccurately from the table, or omitted £ signs.

Question 3

In the 9-mark questions (questions 3 and 7) students are instructed to use a diagram to help them answer the question. Specifically, they should be encouraged to *integrate* the diagrams into their responses. An 'unused' diagram represents *application* of economics to the given context. However, once it is explained and used it forms part of the *analysis*, the chain of reasoning, and contributes more effectively to the response.

In this question students needed to use a diagram to help them analyse how a trade union might achieve higher pay for its members. A labour market diagram was expected, showing how trade

unions can negotiate a higher wage than that prevailing in an otherwise competitive labour market. However, other appropriate diagrams were given credit, for example a diagram showing the impact of a trade union-negotiated wage in a monopsonistic labour market. Generally, the competitive labour market diagram was drawn well, although some students misrepresented the unemployment and/or excess supply created. Whilst some students drew the more complex trade union/monopsonist model perfectly, others were less successful, and this sometimes led to a confused explanation.

Most students began by defining 'trade union' and referred to collective bargaining, however, many responses lacked the depth of analysis required for level 3. In the better responses students explained more fully how the trade union might first try to negotiate with employers, before embarking on various types of industrial action if necessary, such as strikes. With the help of the diagram, and effectively supported by the data in the extract relating to the UVW action, these students were able to develop their responses using well-focused, logical chains of reasoning.

Question 4

Here students needed to use the extracts and their knowledge to assess the view that government intervention in the UK labour market was necessary to protect the interests of people who were working in the gig economy. In the better answers students drew effectively from the prompts in the extracts to properly appreciate and understand the issues facing gig economy workers. They weighed up the drawbacks such as 'higher risks and more uncertainty' against the benefits such as 'greater flexibility and control over their work-life balance'. They used the evidence to support their analysis, often linking to market failure arguments such as widening inequalities, and the possibility of government failure occurring, before arriving at a justified conclusion. Many considered how the government might intervene, with the majority suggesting an increased NMW and/or regulation and discussed the pros and cons of each. However, some students focused excessively on policies, and rather than assessing whether government intervention was *necessary*, they assessed the *best way* to intervene. In these cases, whilst the knowledge and analysis might have been reasonable / good, the evaluation was often more limited in terms of answering the question set.

As always, in the very best answers, students demonstrated their evaluation skills throughout the 25-mark responses in Section A and Section B, for example by making judgements on the significance and importance of arguments as they progressed, before coming to their final judgement. Generally, with these questions, in order to achieve a level 5 response, the evaluation should be supported by theoretical analysis and by the use of data from the extracts (if applicable) and the candidates' own examples and contexts. The latter is only obtained when students take an interest in real world issues, and this plays a huge role in enriching their answers.

Context 2

Question 5

Students were required to calculate, in percentage terms, how much more expensive a basket of groceries at Waitrose was than at Lidl in April 2020, to two decimal places. Only approximately 50% of students earned 2 marks. The most significant reason for 0 marks (achieved by almost 40% of students) was for calculating how much cheaper a basket of groceries at Lidl was than at Waitrose. However, as with question 1, if students did use the correct method but gave the wrong answer, to two decimal places, they were awarded 1 mark. A mark was also available for a correct answer that was incorrectly rounded or did not have the % sign.

Question 6

Students needed to explain how the data in Extract D (Figure 4) showed that the supermarket sector was competitive. The data showed the changing market shares in the supermarket sector over a period of years between 2012 and 2020. As with question 2, whilst definitions were not essential, they helped to support the explanations. Some students explained what it meant for a market to be competitive, and/or 'market share' and/or 'concentration ratio' to help answer the question. They then used the data as evidence to support a reducing market share of Tesco, for example, and growing market share of smaller supermarkets such as Aldi or Lidl, or made reference to the growing market share of the others. In addition to a definition or brief explanation, in the best answers the candidates said what they *expected* to find to address the question, quoted accurate evidence from the data and then tied the answer up by saying how this evidence explained what had been asked for. The evidence quoted was usually good, inevitably some candidates read the data inaccurately from the graph, or did not quote the data in percentage terms, and a small minority used the data in Figure 3 which was not relevant.

Question 7

In this question candidates needed to use a diagram to help them analyse the impact on grocery consumers of interdependence between supermarkets. Given the reference to interdependence it was expected that candidates would use the kinked demand curve diagram to suggest that prices were sticky. Other diagrams/models were rewarded if valid, including a game theory matrix, which was favoured by a small number students. Generally, most students were able to draw the kinked demand curve diagram, especially in its simplest form, but many struggled to integrate it into their analysis effectively.

Whilst many responses tended to begin with a definition of olipopoly, the better ones also included an explanation of interdependence. This then linked nicely into an explanation of the assumptions behind the kinked demand curve diagram, and a reference to the differing price elasticities of demand. Whilst some students concluded that this led to sticky prices, others made use of the data in the extracts relating to price wars and suggested that this had a positive impact on consumers. Responses that referred to the possibility of collusion between supermarkets, in order to remove the uncertainty created by the interdependence, and/or non-price competition were also acceptable and were rewarded according to the quality of the analysis.

Comparing like with like, students appeared to find this question more difficult than the trade union question and scored less well on it. Quite a large number didn't deal with interdependence effectively orat all in some cases, a minority did not focus their analysis towards the 'impact on grocery consumers', but mainly, it was perhaps a lack of familiarity with using the kinked demand curve diagram. Students appeared to be more comfortable with the trade union diagram.

Question 8

In this question students needed to use the extracts and their knowledge to evaluate the view that the supermarket sector was serving consumers' interests well of the argument. In the better answers students drew effectively from the evidence in the extracts to consider both sides. They considered the growing market share of the 'discounters' and a reducing 'price gap', for example, to suggest that consumers' interests were being served well, against the worrying 'lack of competition between supermarkets' to suggest otherwise. They used the evidence to support their analysis, and many successfully integrated diagrams into their responses. A typical diagram compared a monopoly outcome with a more competitive outcome, though a wide range of diagrams was seen and rewarded accordingly. The combination of context, skilfully integrated with

theoretical analysis enabled some students to draw supported, sensible and appropriate conclusions regarding the impact on consumers' interests. However, some students wrote purely theoretical responses, often based on the assumption that firms in oligopoly market structures operated against consumers' interests. Whilst the knowledge and analysis might have been good, these responses lacked the enrichment and direction that the evidence from the extracts could have provided.

Essay 1

Question 9

In this question students needed to explain how the price mechanism allocates resources in a market economy. This should have been a very accessible question assessing a fundamental part of the Economics specification. It was expected that students would discuss the interaction of demand and supply to determine equilibrium price and quantity, and the functions of price. The best responses often used one or more simple demand and supply diagrams and provided a context to support their explanations. Some referred to the 'invisible hand' and showed a proper understanding of how the market mechanism works. That said, it was the least popular of the essay questions, and had the lowest mean mark. Many students struggled to develop their responses sufficiently for level 3, and in some cases, even for level 2. After drawing perhaps one diagram that showed a shift in either demand or supply, they appeared to 'run out of things to say'.

Question 10

In this question students were required to assess the view that high-speed internet connection was a necessity for modern life and should be provided by the government, free of charge, to all households.

This question was accessible to most students, and whilst there were fewer level 4 and 5 marks, there was a good number of very reasonable level 3 responses. Most students were able to build up arguments for and against government intervention and use a range of diagrams, to a greater or lesser extent, to support their analysis. In better responses, students recognised potential market failures, such as high-speed internet connection as a merit good, and/or inequality in the distribution of income and wealth, and this provided stronger arguments for intervention. Not all students considered whether it should be provided 'free of charge', and focused instead on subsidised provision, rather than subsidies being considered as an 'alternative' approach. Some students drew on their own experiences and used the context of the current market-based provision, and this enhanced their responses.

Essay 2

Question 11

This question required students to explain the difference between complete and partial market failure. A very accessible question, and whilst not the most popular essay, it produced the highest proportion of level 3 responses. The better responses logically dealt with each aspect in turn, showed good knowledge and understanding, and provided examples and context which really helped to bring the theory to life. Typically, when dealing with partial market failure students developed one or more examples, with the most popular being negative externalities in consumption. Whilst it wasn't necessary to include a diagram to achieve full marks, most of the

better responses successfully integrated an accurate diagram which helped to develop the analysis further.

Unfortunately, whilst most students were able to accurately explain market failure, a significant number were unable to distinguish between complete and partial market failure. These responses inevitably contained errors and were confused, usually constraining the response to a level 1 mark. Students should be encouraged to consider carefully their choice of question, to ensure it provides them with the best opportunity to demonstrate their knowledge and understanding.

Question 12

Here students needed to evaluate the view that government failure means that government intervention in markets will rarely lead to an improvement in economic welfare. It was expected that government failure and its causes would form a key part of the response, however, this was not always the case. It was evident that some students did not have a secure enough understanding of government failure or its causes to discuss it meaningfully. In other responses, the treatment of government failure was peripheral to the answering of the question, and some students did not even acknowledge it.

Typically, responses began with a discussion of a type of government intervention to correct a market failure, such as indirect taxation to deal with the negative externalities arising from the consumption of alcohol. This then led to an explanation of how this might help solve the market failure, and identified potential problems, such as the regressive nature of the tax. Often, in weaker responses, the conclusion was simply that there was no improvement in welfare, yet in the best responses, students weighed up the pros and cons, considered the possibility of government failure occurring, and why, and came to a more sophisticated conclusion.

Some students suggested that in the case of complete market failure, such as public goods, even though there may be some undesirable aspects of government intervention, there was an improvement in welfare, and they disputed the view purported in the question.

Essay 3

Question 13

In this question students needed to explain the main causes of inequality in the distribution of pre-tax incomes. This was the most popular essay question and, being accessible to almost all students, had the highest mean mark. In most responses students assumed that inequality in pre-tax incomes was caused predominantly by wage differentials, and focused on the reasons for such differences, which was an acceptable approach. The most common causes stated were differences in skills and marginal revenue product (MRP), and in many responses students integrated a simple labour market diagram to illustrate the wage differences between different occupations to help develop the analysis further. Some students raised the issue of wealth inequality, but only a few were able to effectively link this to income inequality.

Generally, knowledge and understanding were satisfactory, however, occasionally, there was some confusion regarding demand and supply factors, and more often, with price elasticities of demand and supply of labour, and their effects on inequality.

Question 14

Here students needed to evaluate whether the best way to reduce inequality in disposable income was to reduce differences in pre-tax incomes rather than through taxes and welfare benefits. As with question 13, it was accessible to all, and had the highest mean mark. Most students were able to consider all three aspects of the question, with many choosing to discuss an increase in the NMW or Living Wage to reduce differences in pre-tax incomes. Others focused on education and training to improve MRP. In terms of taxation and welfare benefits, it was pleasing to see that most students referred explicitly to progressive taxation and means-tested benefits. The better answers developed much deeper analysis, were enriched by the students' own examples, context and ideas, before arriving at pertinent and often insightful conclusions. It was clear that some students had genuinely considered the *best way* to reduce inequality in disposable income.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the Results Statistics page of the AQA Website.