
A-LEVEL ECONOMICS

7136/1 Markets and Market Failure
Report on the Examination

7136/1
June 2023

Version: 1.0

Further copies of this Report are available from aqa.org.uk

Copyright © 2023 AQA and its licensors. All rights reserved.
AQA retains the copyright on all its publications. However, registered schools/colleges for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to schools/colleges to photocopy any material that is acknowledged to a third party even for internal use within the centre.

General

Paper 1: Markets and Market Failure represents one third of the A Level qualification and assesses the subject content found in Section 4.1 of the specification ‘Individuals, firms, markets, and market failure’. However, the economic principles included in Section 4.2 of the specification may also be used to enrich students’ responses.

In addition, the first bullet point in section 7.2 of the specification reminds students and centres about quantitative skills. It states, ‘In order to develop their skills, knowledge and understanding in economics, students need to have acquired competence in the quantitative skills that are relevant to the subject content, and which are applied in the context of an economics A-level’.

The paper comprises two parts. Section A includes data response questions requiring written answers and is worth 40 marks. Students have a choice of one from two contexts. Section B includes essay questions and is worth 40 marks. Students choose one from a choice of three sets of questions.

The paper is assessed predominantly using the levels mark scheme which is intended to provide a valid form of assessment to ensure students are appropriately rewarded. The responses are marked holistically. Examiners identify which relevant skills students have demonstrated: knowledge, application, analysis and evaluation, and place the response in the most appropriate level in the mark scheme.

The paper was taken by almost 15 000 students. In Section A, Context 1, ‘Electric cars and battery production’, was far more popular than Context 2, ‘In-work poverty in the United Kingdom’. In Section B, Essay 3, how market contestability affects the performance of an industry, and a discussion of the view that privatisation is always beneficial because it leads to improvements in efficiency, was the most popular. Essay 2, the determinants of the supply of labour to an industry, and an evaluation of the view that labour markets work best when strong monopsony power is balanced by trade union power, was the least popular.

Context 1

Question 1

Students were required to calculate the index of total car sales in 2021 if, in the base year, total car sales were 1.25 million, to two decimal places. Whilst this should have been a straightforward question, unfortunately, over half of the students scored 0 marks. The most common mistake was to partially complete the index number calculation, but to forget to multiply by 100 to convert to index number form. For example, $1\,647\,181 / 1\,250\,000 = 1.32$ to two decimal places. Others calculated the percentage change, but did not convert to index number form. A small minority of students scored 1 mark, for either stating the correct method with the wrong answer, for a rounding error, or for using incorrect units, such as ‘£’.

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 (Table 1 and Figure 1) showed that developments in the car market were the main reason for the changing demand for lithium-ion batteries in the UK. Table 1 showed sales of cars by fuel type in the UK, and Figure 1 showed UK demand for lithium-ion batteries. Whilst a definition was not essential, it helped to support the explanation. In the best answers the students often defined ‘derived demand’, and linked the rising sales of electric and hybrid cars to the rising demand for lithium-ion batteries which would be used in the production of cars. In good answers, students also 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, although sometimes students only made use of one of the data sources, rather than both, as directed by the question. Students often calculated the percentage change in the sales of different types of cars and/or lithium-ion batteries for car use. However, provided that it was used appropriately, quoting the evidence in its original form was sufficient to achieve full marks.

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 were asked to use a diagram to help them explain why the production and sale of lithium-ion batteries might lead to market failure. A negative externalities in production diagram was expected, showing how battery producers were likely to produce at a quantity above the socially-optimum level of output. However, other appropriate diagrams were given credit, provided that the explanation was consistent with the diagram. Generally, the diagrams were drawn well, and often showed an accurately-placed deadweight loss, though this was not essential. However, when mistakes were made on diagrams, such as inaccurately-labelled curves, this usually led to a confused explanation.

Most students began by defining ‘market failure’ and ‘negative externality’. Then they almost always used some evidence from the extract regarding either the mining, manufacture or disposal of the batteries to support their responses. Over half of the students were able to develop their analysis sufficiently to achieve a level-3 mark, and appeared to be very comfortable with this part of the specification content. They confidently used externalities theory, sometimes referred to information failure, and effectively integrated their diagram and context into their responses, using well-focused, logical chains of reasoning. In weaker responses, students often relied too much on the evidence in the extract, which was sometimes copied, and did not take the opportunity to demonstrate their knowledge and understanding of the theory.

Question 4

Here students needed to use the extracts and their knowledge to evaluate policies that could be used to reduce the environmental impact of all types of car. This proved to be a very accessible question, with many students able to discuss the generic pros and cons of various types of government intervention such as indirect taxation and subsidies to a greater or lesser extent. For a typical answer this involved taxing petrol and diesel cars, and subsidising electric and hybrid cars. However, in the best answers students acknowledged that the question referred to *all* types of cars. They discussed the drawbacks of electric vehicles too, such as relating to the batteries, which had been referred to in question 3, and/or congestion, so were able to recognise the limitations of using subsidies and other incentives for electric vehicles. They drew effectively from the prompts in

the extracts, and used the evidence to support their analysis, before arriving at a justified conclusion.

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 students' 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 the difference between the mean and median rate of growth of working households' real pre-tax earnings, over the period shown. For those students who recognised that it was a matter of reading both the mean and median values from the graph, this was a very straightforward calculation, however, fewer than 50% earned 2 marks. The difficulty appeared to lie with reading the median value from the 50th percentile, and some students were completely put off and did not attempt an answer. However, as with question 1, if students did use the correct method but gave the wrong answer, they were awarded 1 mark. 1 mark was also available for a correct answer that did not refer to percentage points or have the % sign.

Question 6

Students needed to explain how the data in Extract D (Figure 3) showed that employment is an increasingly ineffective protection against poverty. The data showed the in-work poverty rate in selected UK regions, over a period of years between 2003/4 and 2019/20. As with question 2, whilst definitions were not essential, they often helped to support the explanations. Some students explained poverty and/or in-work poverty. In addition to a definition or brief explanation, in the best answers the students said what they *expected* to find to address the question, in this case, an increase in the in-work poverty rate across the UK. They 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 students read the data inaccurately from the graph, or did not quote the data in % terms, and a small minority used the data in Figure 2 which was not relevant.

Question 7

In this question students needed to use a diagram to help them explain how a reduction in out-of-work benefits may lead to lower wages in some labour markets. A simple labour market diagram was expected, showing an increase in the supply of labour putting downward pressure on wages. Other appropriate diagrams were given credit as long as they were consistent with the accompanying explanation.

Many responses tended to begin with an explanation of 'out-of-work benefits', and went on to explain how, if they were reduced, it would provide an incentive for individuals to seek a job, and increase the labour supply. In the best answers, students developed their responses by analysing the adjustment to the equilibrium wage rate following the shift in supply. Others acknowledged that the changes were most likely to impact low-skilled labour markets. Unfortunately, a minority of

students appeared to confuse ‘out-of-work benefits’ with ‘fringe benefits’, which meant that their accompanying analysis was flawed.

Comparing like with like, students appeared to find this question more difficult than the market failure question and scored less well on it. This said, over 40% of students achieved a level-3 mark.

Question 8

In this question students needed to use the extracts and their knowledge to evaluate policies that could be used to reduce in-work poverty in the UK. In the better answers students drew effectively from the evidence in the extracts regarding a number of policies, for example, increasing the minimum wage and extending the use of means-tested benefits. However, they also acknowledged that in-work poverty was not limited to those in unskilled roles. Not surprisingly, many students referred to the so-called ‘cost-of-living crisis’, and evaluated contemporary policies such as support with energy bills. The combination of context, skilfully integrated with theoretical analysis enabled students to draw supported, sensible and appropriate conclusions regarding the ways to reduce in-work poverty. However, some students did not pick up on ‘in-work poverty’, and wrote a generic poverty essay. Whilst the knowledge and analysis might have been good, these responses lacked the enrichment that the evidence from the extracts could have provided.

Essay 1

Question 9

In this question students needed to explain why, in long-run equilibrium, monopolistically competitive markets are neither productively nor allocatively efficient. Most students began with an explanation of the characteristics of monopolistic competition, and definitions of both productive and allocative efficiency. Whilst diagrams are not required in the essay questions to achieve full marks, in some instances, they provide focus and support the development of logical chains of analysis. Here, for those students who could accurately construct the long-run (and sometimes short-run) model of monopolistic competition, this was a very straightforward question. They effectively integrated the model(s) into their response to show that in the long run, monopolistically competitive markets are neither productively nor allocatively efficient. The question was generally well answered, and almost 40% of students achieved a level-3 mark. However, some students struggled to construct the diagram accurately, and/or did not have a sound understanding of monopolistic competition or the efficiencies, which meant that often their responses remained in level 2. Unfortunately, in a minority of cases, students confused monopolistic competition with monopoly, which meant very little, if anything, could be rewarded.

Question 10

In this question students were required to assess the view that competition policy is likely to lead to markets becoming less efficient in the long run.

This question was the least well answered of the three essays, with the highest proportion of level-1 and level-2 marks awarded, and the lowest mean mark. There were two main issues with the students’ responses. The first was that many of the responses were limited in scope. There was an assumption that ‘competition policy’ meant introducing more competition into markets, but did not explain how or why, and concluded that there might be more static efficiency but less dynamic efficiency in the long run. In addition, some students also wrote very generically about efficiency, which meant their responses were quite vague. In the best responses, students focused on

specific types of competition policy and assessed the impact on types of efficiency. There was often reference to the CMA, the responses focused on monopoly and oligopoly market structures, and the students successfully integrated their own context into their responses.

The second issue with this question was that a number of students appeared to misread it, and assessed the view that *competition* was likely to lead to markets becoming less efficient in the long run. This was a significant deviation from the question, and meant that there was limited application and analysis of *relevant* economic theory. This question, in particular, serves to remind students of the importance of reading the question very carefully.

Essay 2

Question 11

This question required students to explain the determinants of the supply of labour to an industry. It was a very straightforward question and proved accessible to most students attempting it.

However, whilst many could easily identify a number of relevant factors, some students struggled to develop their answers sufficiently beyond this to achieve level 3, and compared to the other 15-mark questions, this had the greatest proportion of level-2 marks. In the best answers students analysed two possibly, but more likely three, determinants of the supply of labour to an industry, and often distinguished between monetary and non-monetary considerations. Many began with the wage rate, and effectively used a simple supply-curve diagram to illustrate movements along the curve in response to changes in the wage rate. A minority of students used the backwards-bending supply of labour curve, though this was not expected. Another popular determinant was the qualifications and/or skills required to enter an industry, and in the better answers, this was developed using context and examples to contrast two occupations, typically doctors and retail assistants. The examples and context really helped to bring the theory to life, and enabled students to develop their answers more fully.

Unfortunately, a small number of students confused the supply of labour with the demand for labour, and inevitably their answers were very confused.

Question 12

Here students needed to evaluate the view that labour markets work best when strong monopsony power is balanced by trade union power. Typically, in the better answers, students discussed the impact on wages and employment of monopsony power in a labour market, and then analysed how this differed in the presence of a trade union. They effectively integrated the more complex models into their responses, which helped to develop logical chains of analysis, and they often concluded that labour markets work well in such scenarios. A number of students considered 'work best' in terms of different stakeholders, in some cases linking wage rises to cost-push inflation, and the impact on consumers. Others compared different types of labour markets, such as the outcome in a perfectly competitive labour market, and/or when a trade union is present in such a market.

The best answers also included context and a few of the many examples experienced in the UK presently which helped to bring the theory to life. However, in some weaker responses, students merely described various instances of industrial action which have taken place, with very limited economic knowledge and analysis.

Essay 3

Question 13

In this question students needed to explain how market contestability affects the performance of an industry. This was the most popular essay question and, by a small margin, had the highest mean mark. In the best responses, students began by explaining the characteristics of a contestable market, and often used a diagram to illustrate the change in the behaviour of the incumbent firm when faced with the threat of competition. In addition, they considered what was meant by 'performance of an industry', and often explained the impact on prices, output, profits and types of efficiency.

However, some students did not properly grasp the issue of contestability. Their answers became a comparison of different types of market structures, typically perfect competition and monopoly, and so did not demonstrate a sound understanding of the theory.

Question 14

Here students needed to discuss the view that privatisation is always beneficial because it leads to improvements in efficiency. It was the most popular essay question, had the highest mean mark, and significantly more level 3, 4 and 5 marks were awarded. In the best answers, students compared the impact following privatisation to that under state ownership, on various types of efficiency, and used context and examples to support their answers. This question was very much a blank canvas in terms of what the students could write about, yet some answers were rather narrow in scope. These tended to focus on the assumption that privatisation inevitably led to greater amounts of competition, and was therefore beneficial, without necessarily considering the objectives of the firms involved. Many students picked up on 'always' and used this as part of their final conclusion, sometimes superficially, but others dealt with it much more meaningfully. They considered perhaps the type of industry, welfare arguments, the presence *and* effectiveness of a regulator, before arriving at pertinent and often insightful conclusions.

Mark Ranges and Award of Grades

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