AQA

A-level
ECONOMICS
7136/1

Paper 1 Markets and Market Failure

Mark scheme

June 2023

Version: 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from aqa.org.uk

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Section A

Below is the levels of response marking grid to be used when marking any 25-mark question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21–25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16–20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11–15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6–10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1–5 marks**

Section A

Context 1 **Total for this context: 40 marks**

0 1 *Using the data in **Extract A** (**Table 1**), calculate the index of total car sales in 2021 if, in the base year, total car sales were 1.25 million.*

*Give your answer to **two** decimal places.*

[2 marks]

Calculation:

$$100 \times \frac{1.647181}{1.25} = 100 \times 1.317745$$

Correct answer: 131.77

Response	Max 2 marks
For the correct answer, to two decimal places	**2 marks**
For the correct answer, not rounded to two decimal places: eg 131.8 **OR** For the correct answer rounded to two decimal places with incorrect units: eg 131.77% **OR** For the correct method but wrong answer, rounded to two decimal places, but not with incorrect units: eg 100 x A/B	**1 mark**

MAXIMUM FOR QUESTION 01: 2 MARKS

0 2 *Explain how the data in **Extract A** (**Table 1** and **Figure 1**) show that developments in the car market are the main reason for the changing demand for lithium-ion batteries in the UK.*

[4 marks]

Response	Max 4 marks
• Includes evidence that shows that developments in the car market are the main reason for the changing demand for lithium-ion batteries. • Clearly explains how this data is evidence that developments in the car market are the main reason for the changing demand for lithium-ion batteries.	**4 marks**
• Includes evidence that shows that developments in the car market are the main reason for the changing demand for lithium-ion batteries. • Explanation of how this data is evidence that developments in the car market are the main reason for the changing demand for lithium-ion batteries.	**3 marks**
• Includes some evidence that shows that developments in the car market are the main reason for the changing demand for lithium-ion batteries. • Limited explanation of how this data is evidence that developments in the car market are the main reason for the changing demand for lithium-ion batteries.	**2 marks**
• Includes evidence that does not clearly show that developments in the car market are the main reason for the changing demand for lithium-ion batteries. • No explanation of how this data is evidence that developments in the car market are the main reason for the changing demand for lithium-ion batteries.	**1 mark**

Relevant issues include:

- explanation of derived demand as the relationship between the demand for electric cars and lithium-ion batteries
- demand for lithium-ion batteries for electric cars has risen from approximately zero in 2015 to around 80GWh in 2020 and is forecast to rise to 450GWh by 2025 and 1280GWh by 2030
- in comparison, total demand for lithium-ion batteries has risen from approximately 80GWh in 2015 to around 200GWh in 2020 and is forecast to rise to 800GWh in 2025 and 2030GWh by 2030
- the proportion of lithium-ion battery demand from electric cars has risen from approximately zero in 2015 to around 40% in 2020 and is forecast to rise to 56% in 2025 and 63% by 2030
- sales of battery electric cars rose from 108 205 in 2020 to 190 727 in 2021, and/or by 76.3% between 2020 and 2021
- sales of hybrid electric cars rose from 357 126 in 2020 to 558 578 in 2021, and/or by 56.4% between 2020 and 2021.

Students should get credit for showing that changes in other uses of lithium-ion batteries are not as significant as the projected change in the use of lithium-ion batteries for electric cars.

Note: allow a margin of +/- 50GWh for the data quoted from **Figure 1**.

MAXIMUM FOR QUESTION 02: 4 MARKS

0 3 ***Extract C*** *(lines 3–4) states that 'the mining, manufacturing and disposal process for batteries could soon become an environmental disaster.'*

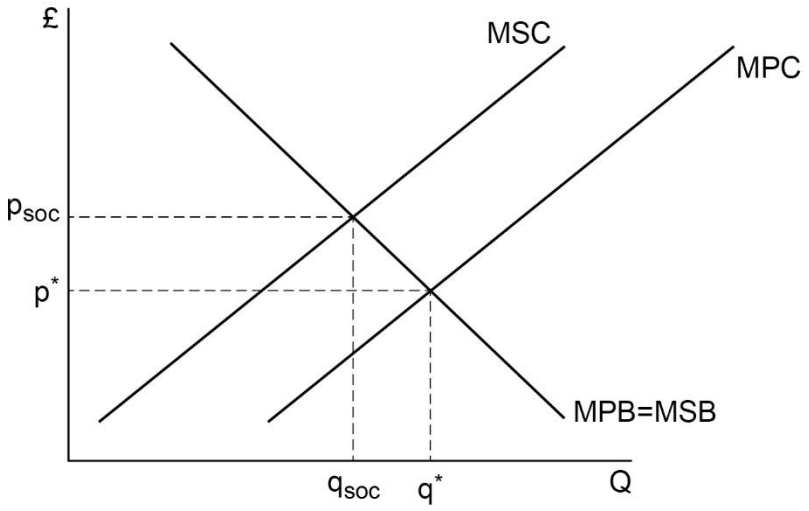
With the help of a diagram, explain why the production and sale of lithium-ion batteries might lead to market failure.

[9 marks]

Level of response	Response	Max 9 marks
3	• Is well organised and develops one or more of the key issues that are relevant to the question. • Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. • Includes good application of relevant economic principles and/or good use of data to support the response. • Includes well-focused analysis with a clear, logical chain of reasoning. • Includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7–9 marks**
2	• Includes one or more issues that are relevant to the question. • Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. • Includes reasonable application of relevant economic principles and/or data to the question. • Includes some reasonable analysis but it might not be adequately developed and may be confused in places. • May include a relevant diagram.	**4–6 marks**
1	• Is very brief and/or lacks coherence. • Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely. • Demonstrates very limited ability to apply relevant economic principles and/or data to the question. • May include some very limited analysis but the analysis lacks focus and/or becomes confused. • May include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1–3 marks**

Suggested diagram

A negative production externalities diagram is expected, showing how battery producers are likely to produce q^*, which is more than the socially optimal q_{soc} . However, other appropriate diagrams should be given credit providing that the explanation is consistent with the diagram.



Relevant issues include:

- definition of market failure
- explanation of the diagram, showing market failure and overproduction
- relating the diagram to marginal external costs and identifying deadweight loss on the diagram
- batteries require a range of scarce minerals and resources which are difficult to obtain, involving various industrial processes, all of which can impose externalities
- the fact that mining battery minerals requires significant energy itself, which may create externalities
- the fact that the battery supply chain involves multiple stages of transportation (eg from DRC to Finland to China to US/Europe)
- the inappropriate disposal of batteries can lead to hazardous waste
- explanation of the tragedy of the commons
- the potential for imperfect information if consumers believe that electric vehicles are more environmentally-friendly than is actually true.

MAXIMUM FOR QUESTION 03: 9 MARKS

0 4 ***Extract B*** *(lines 20–21) states that 'all vehicle owners should be forced to pay the full costs of their driving. This would incentivise people to consider using public transport, cycling or walking.'*

Evaluate policies that could be used to reduce the environmental impact of all types of car.

[25 marks]

Areas for discussion include:

- discussion of the range of environmental impacts associated with petrol and diesel cars (including air and noise pollution and combustion of fossil fuels)
- discussion of the range of environmental impacts associated with electric/hybrid cars (including battery production externalities and the problems caused by road congestion)
- the production of cars of all types is both energy-intensive and resource-intensive
- the infrastructure requirements of different types of car (petrol stations/charging stations for EVs)
- arguments for and against taxing cars/driving to internalise externalities, to raise revenue (possibly for hypothecation on road spending or public transport)
- arguments for and against subsidies and tax exemptions for 'green' cars, such as electric vehicles, or research and development in this field
- arguments for and against public support for research and development into battery recycling, as discussed in **Extract C**
- arguments for and against regulation to ensure minimum environmental standards
- tradeable pollution permit schemes, eg for the disposal of waste
- arguments for and against subsidising public transport
- arguments for and against promoting walking, cycling, or other healthier alternatives to driving
- consideration of behavioural influences on incentives
- arguments for and against allowing the market to operate freely (eg consumers are already choosing to avoid dirtier cars)
- market failure arguments
- government failure arguments.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

Context 2 **Total for this context: 40 marks**

0 5 *Use the data in **Extract D** (**Figure 2**) to calculate the difference between the mean and median rate of growth of working households' real pre-tax earnings, over the period 1994–2017.*

[2 marks]

Mean: 34% (read off the chart)
Median: 26% (read off the chart)
Calculation: 34 – 26 = 8 percentage points
Correct answer: 8 percentage points (+/– 2 percentage points)

Response	**Max 2 marks**
For the correct answer with the units, percentage points or %	**2 marks**
For the correct answer but without the units, percentage points or % **OR** For the correct method but the wrong answer, with the units, percentage points or % (must be evidence that the median household has been identified as the 50th percentile)	**1 mark**

Allow '%' instead of 'percentage points'.

MAXIMUM FOR QUESTION 05: 2 MARKS

0 6 *Explain how the data in **Extract D** (**Figure 3**) show that employment is an increasingly ineffective protection against poverty.*

[4 marks]

Response	Max 4 marks
• Includes evidence that shows that employment is an increasingly ineffective protection against poverty. • Clearly explains how this data is evidence that employment is an increasingly ineffective protection against poverty.	**4 marks**
• Includes evidence that shows that employment is an increasingly ineffective protection against poverty. • Explanation of how this data is evidence that employment is an increasingly ineffective protection against poverty.	**3 marks**
• Includes some evidence that shows that employment is an increasingly ineffective protection against poverty. • Limited explanation of how this data is evidence that employment is an increasingly ineffective protection against poverty.	**2 marks**
• Includes evidence that does not show that employment is an increasingly ineffective protection against poverty. • No explanation of how this data is evidence that employment is an increasingly ineffective protection against poverty.	**1 mark**

Relevant issues include:

- explanation of what is meant by poverty and/or in-work poverty
- explanation of what the poverty lines show
- explanation that for employment to be an increasingly ineffective protection against poverty one would expect to see an increasing in-work poverty rate in most, if not all, regions
- evidence that a particular region has an increase in the in-work poverty rate, for example, London had an in-work poverty rate of 15% in 2003–2004 which had risen to 22% in 2019–2020
- all regions shown have higher in-work poverty rates at the end of the period than at the start. For example, Wales had an in-work poverty rate of 13% in 2003–2004 which had risen to 17.5% in 2019–2020
- all regions shown had the highest in-work poverty rate, towards the end of the period, in either 2017–2018 or 2018–2019. For example, London's was 23% in 2018–2019
- explanation of why the data show that employment is an increasingly ineffective protection against poverty is that all regions show an increase in the in-work-poverty rate in 2019/20 compared to 2003/04

Other figures for ease of reference:

- North of England had an in-work poverty rate of 13% in 2003–2004 which had risen to 17.5% in 2019–2020
- South of England and East of England had an in-work poverty rate of 12% in 2003–2004 which had risen to 15% in 2019–2020
- Scotland had an in-work poverty rate of 12% in 2003–2004 which had risen to 14% in 2019–2020

Note: allow a margin of +/- 1% point

MAXIMUM FOR QUESTION 06: 4 MARKS

0 7 ***Extract E*** *(lines 19–20) states that 'Some out-of-work benefits have not kept up with inflation, putting downward pressure on wages, contributing to the rise in in-work poverty.'*

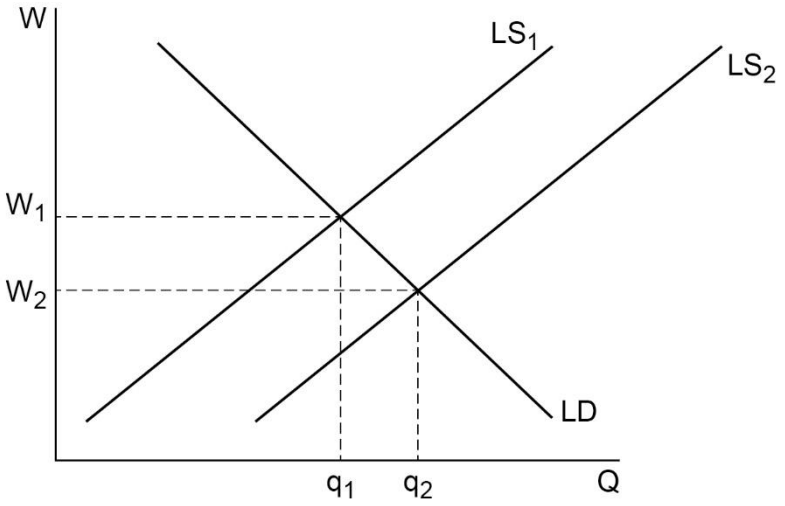
With the help of a diagram, explain how a reduction in out-of-work benefits may lead to lower wages in some labour markets.

[9 marks]

Level of response	Response	Max 9 marks
3	• Is well organised and develops one or more of the key issues that are relevant to the question. • Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. • Includes good application of relevant economic principles and/or good use of data to support the response. • Includes well-focused analysis with a clear, logical chain of reasoning. • Includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	**7–9 marks**
2	• Includes one or more issues that are relevant to the question. • Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. • Includes reasonable application of relevant economic principles and/or data to the question. • Includes some reasonable analysis but it might not be adequately developed and may be confused in places. • May include a relevant diagram.	**4–6 marks**
1	• Is very brief and/or lacks coherence. • Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely. • Demonstrates very limited ability to apply relevant economic principles and/or data to the question. • May include some very limited analysis but the analysis lacks focus and/or becomes confused. • May include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	**1–3 marks**

Suggested Diagram

A labour market diagram is expected, showing an increase in the supply of labour putting downward pressure on wages. However, other appropriate diagrams should be given credit providing that the explanation is consistent with the diagram.



Relevant issues include:

- explanation of the diagram
- explanation of out-of-work benefits and how they might provide a wage floor
- a reduction in out-of-work benefits may encourage some unemployed to increase their efforts to find a job or to accept a job at a lower wage
- firms may take advantage of this enhanced labour supply to reduce wage offers to all their employees
- elasticity of labour demand will have an impact on the size of the wage cut imposed by the market
- these impacts are only likely to be direct in low-skilled sectors where pay is already low, although there could be indirect impacts on the pay of more senior workers
- explanation of why an increase in the supply of labour is likely to lead to lower wages
- explanation of how a reduction in out-of-work benefits may reduce the demand for some goods and services, leading to lower demand for labour and lower wages.

MAXIMUM FOR QUESTION 07: 9 MARKS

0 8 ***Extract F*** *(lines 1–2) states that 'Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers.'*

Using the extracts and your knowledge of economics, evaluate policies that could be used to reduce in-work poverty in the UK.

[25 marks]

Areas for discussion include:

- the growing problem of poverty in the UK
- the distinction between in-work and out-of-work poverty and how the former has become a greater issue in recent times
- why in-work poverty has been rising, including rising costs (rents, grocery bills, energy bills), the impact of flexible labour markets, the operation of the gig economy, lower rates of unionisation
- the consequences of poverty
- discussion of the government's 'levelling-up' agenda
- discussion of policies, including
  - means-tested benefits such as Universal Credit
  - universal benefits such as the NHS or state education
  - steps to increase wages (such as higher minimum wages)
  - changes to the system of income taxation and National Insurance
  - policies to make housing, fuel and food more affordable
  - policies to make work more secure, and incomes more stable (such as banning zero hours contracts)
- arguments for and against leaving the problem of in-work poverty to market forces, including the argument that firms have an interest in paying staff higher wages and that the opportunity to earn higher wages, and move out of poverty, motivates people to work hard
- non-governmental responses to poverty such as informal lending from family and friends, food banks and charities
- market failure arguments
- government failure arguments.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

Section B

Below is the levels of response marking grid which should be used to mark the 15-mark questions

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11–15 marks**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis which might not be adequately developed or becomes confused in places.	**6–10 marks**
1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1–5 marks**

Section B

Essay 1 **Total for this context: 40 marks**

0 9 *Explain why, in long-run equilibrium, monopolistically competitive markets are neither productively nor allocatively efficient.*

[15 marks]

Areas for discussion include:

- explanation of the features of monopolistic competition
- examples of markets which are monopolistically competitive
- the difference between the short run and the long run
- how a monopolistically competitive market is likely to evolve in the long run
- the impact of low barriers to entry and exit on profit, price and quantity
- explanation of the conditions for productive and allocative efficiency and why these are not likely to be met.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

1 0 *Assess the view that competition policy is likely to lead to markets becoming less efficient in the long run.*

[25 marks]

Areas for discussion include:

- explanation of competition policy
- what is meant by 'long run' and 'efficient'
- explanation of different types of efficiency
- the role of the Competition and Markets Authority in promoting competition in the UK (possibly including how this has changed since the UK left the EU)
- the aims of competition policy (preventing growth of monopoly power, preventing abuse of monopoly power, investigating allegations of monopoly power, reducing barriers to entry, safeguarding consumer/supplier interests)
- the tools of competition policy
- how competition policy may lead to more bureaucracy and 'red tape', thus leading to inefficiency
- how competition policy may prevent firms from growing or making supernormal profit, with consequences for dynamic efficiency
- how competition policy may impact economies/diseconomies of scale
- how the CMA looks at competition issues on a case-by-case basis rather than applying rigid rules
- examples of recent competition policy decisions
- examples of competition policy making markets more or less efficient
- market failure arguments
- government failure arguments.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

Essay 2 **Total for this essay: 40 marks**

1 1 *Explain the determinants of the supply of labour to an industry.*

[15 marks]

Areas for discussion include:

- the nature of an industry labour supply curve
- causes of movements along and shifts in an industry labour supply curve
- factors including
  - wage offered
  - difficulty in obtaining qualifications and skills and number of qualified people
  - non-wage benefits such as pensions, holidays, private health insurance
  - job satisfaction/dissatisfaction and working conditions
  - wages and benefits available in other similar industries
  - the tax and benefits system
  - demographic changes and immigration
  - trade unions
  - apprenticeships and training schemes
- use of examples.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

1 2 *Evaluate the view that labour markets work best when strong monopsony power is balanced by trade union power.*

[25 marks]

Areas for discussion include:

- explanation of labour market, monopsony power and trade union power
- explanation of the characteristics of a labour market that is working well, eg development of skills, ability of firms to recruit workers, impact on productivity
- discussion of how monopsony power can affect an otherwise competitive labour market in terms of wages and employment
- examples of such monopsony labour markets
- discussion of how trade unions can counteract the bargaining power of monopsony employers in order to maintain relatively high wages and employment
- benefits of trade unions, eg collective bargaining, training, productivity improvements
- examples of such labour markets with balanced buying and selling power
- discussion of the fact that having one buyer and one seller does not constitute a market, but merely a negotiation, and that the outcomes of negotiations are very uncertain
- alternative approaches to tackling monopsony power in labour markets, eg minimum wage
- consideration of other types of labour market which may work better, eg competitive labour markets
- consideration of government policies affecting the relative strength of trade unions
- consideration of the effect of industrial action on labour markets
- consideration of impact on different stakeholders, eg firms and consumers
- an overall assessment of whether labour markets work best when strong monopsony power is balanced by trade union power.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

Essay 3 **Total for this essay: 40 marks**

1 3 *Explain how market contestability affects the performance of an industry.*

[15 marks]

Areas for discussion include:

- explanation of what is meant by the performance of an industry, eg profit/impact on consumers/efficiencies
- explanation of contestability
- how in a contestable market there is freedom of entry and exit, low sunk costs and the credible threat of new firms entering
- how the threat alone can force incumbent firms to keep prices reasonably low even if they are the sole supplier
- why contestable markets will tend to have lower profits than markets where there are significant barriers to entry
- the impact of contestability on efficiencies
- the opportunity for economies of scale in contestable markets
- use of examples.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

1 4 *Discuss the view that privatisation is always beneficial because it leads to improvements in efficiency.*

[25 marks]

Areas for discussion include:

- explanation of privatisation and efficiency
- explanation of types of efficiency
- reasons for privatisation
  - to open up the industry to market forces and the profit incentive
  - greater efficiency
  - contestability
  - lack of political interference
  - raising revenue through sale of assets
  - improved competition (if deregulation alongside privatisation)
- disadvantages of privatisation
  - monopolies may well form and may need regulating
  - externalities less likely to be considered
  - government loses a source of ongoing revenue if the entity is profitable
  - fragmentation into multiple providers leading to rising costs
  - short-termist profit objectives leading to suboptimal long-term decisions
  - loss of economies of scale and natural monopoly arguments
- examples of privatisations that have involved deregulation and increased contestability (eg rail) and evaluation of whether they have been successful or not
- evaluation of the pros and cons of privatisation with deregulation/increased contestability
- discussion of how only some privatisations create markets in place of state-owned monopolies: others create non-contestable monopolies which are then regulated
- discussion of how some state-owned industries are of strategic/sensitive national importance, eg nuclear power and thus ought to remain in government hands
- market failure arguments
- government failure arguments
- assessment of whether privatisation is always beneficial and if so, whether the benefits are due to improved efficiency or other reasons.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award student marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS