



## A-Level Edexcel Economics: Subsidies Past Paper Mark Scheme

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**Question 1**

Answer	Mark
<p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge</b> 1 mark for definition, e.g.</p> <ul style="list-style-type: none"> <li>Government grant (1) or government policy designed to encourage production or consumption (1) money given (1)</li> </ul>	<b>(1)</b>

**1 (b)**

Answer	Mark
<p style="text-align: center;"><b>Knowledge 1</b></p> <p>C</p>	<b>(1)</b>

**Question 2**

Answer	Mark
<b>Answer C (1)</b> <ul style="list-style-type: none"><li>• Definition of a subsidy (Government grant to firms to increase production / reduce price of a good) (1)</li><li>• Unit subsidy <math>\times</math> quantity is <math>\text{£}3 \times 150 = \text{£}450</math> (accept other methods of calculating subsidy) (2)</li></ul>	

**Question 3**

Answer	Mark
<p><b>A (1 mark)</b></p> <ul style="list-style-type: none"> <li>• Definition of subsidy (government grant to firms to increase production and lower price of a good). <b>(1 mark)</b></li> <li>• The effects of the subsidy is to help reduce costs of production and so encourage firms to raise supply. <b>(1 mark)</b></li> <li>• Consumer subsidy is (<math>P_e P_1 XY</math>) and producer subsidy is (<math>P_e P_2 ZY</math>). <b>(1 mark)</b></li> </ul> <p><b>Rejection marks</b></p> <ul style="list-style-type: none"> <li>• Option B incorrect since producer surplus is area (<math>P_0 P_1 X</math>) plus the subsidy area. <b>(1 mark)</b></li> <li>• Option C incorrect as the consumer subsidy (<math>P_e P_1 XY</math>) exceeds the producer subsidy of (<math>P_e P_2 ZY</math>). <b>(1 mark)</b></li> <li>• Option D incorrect – candidate needs to show the increase in consumer surplus or the new level of consumer surplus. <b>(1 mark)</b></li> </ul>	<p><b>(4)</b></p>

**Question 4**

Answer	Mark
<p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b>  <math>568 \times 1.8</math> million (1)            Accept 1022 million or 1022.4 million for 2 marks.            Accept 1,022,400,000</p> <p><b>NB If million is missing from the answer award up to 1 mark</b></p>	<b>(2)</b>

**4 (b)**

Answer	Mark
<p style="text-align: center;"><b>Application 2</b></p> <p><b>Application:</b>            1 mark for the percentage of subsidy for consumers:  <b><math>71 \div 568 \times 100 = 12.5\%</math></b> (1)</p> <p>1 mark for the percentage of subsidy received by producers:  <b><math>497 \div 568 \times 100 = 87.5\%</math></b> (1)</p> <p>Award 1 mark if the answers are transposed</p> <p><b>NB</b> if no correct calculations, award up to 1 mark for:            correct annotation of diagram depicting consumer and producer subsidy areas</p> <p>OR the actual consumer subsidy per unit (71 rupees)            and producer subsidy per unit (497 rupees)</p> <p>OR consumer subsidy (127.8 million rupees) and            Producer subsidy (894.6 million rupees)</p>	<b>(2)</b>

**4 (c)**

Answer	Mark
A	<b>(1)</b>

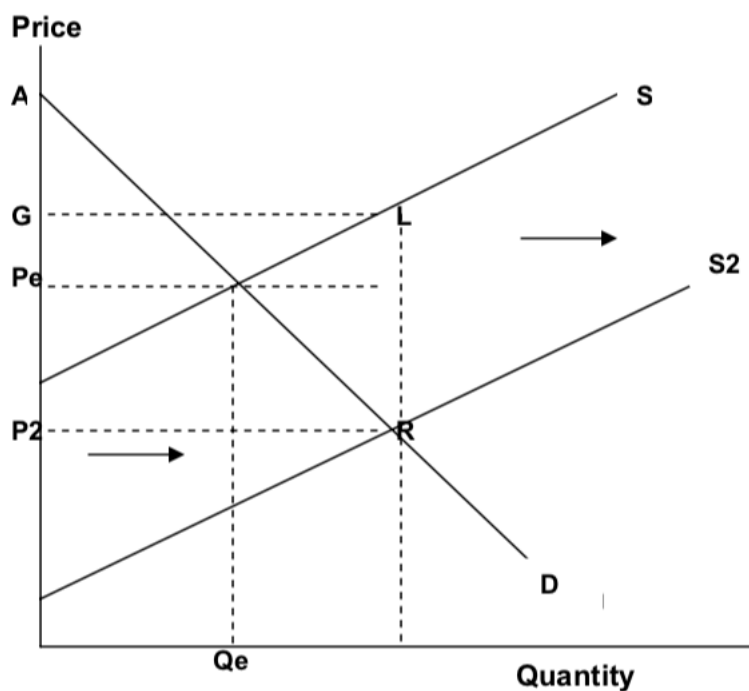
## Question 5

### KAA 6 marks

- Definition of a subsidy (government grant to firms) (1 mark)
- Written explanation: subsidy should reduce price and increase quantity of rail and bus travel (1 mark)
- Subsidy acts to reduce production costs (1 mark)
- Benefits include: (1+1+1+1 marks)
  - increase in quality of bus and rail services such as frequency, reliability and cleanliness
  - increase in consumer surplus
  - increase in producer surplus
  - increase in employment in rail and bus travel industries
  - less congestion on roads / less environmental pollution
  - Help low income groups

### Subsidy diagram (up to 3 marks)

- Shift of supply curve to the right (1)
- New equilibrium price and quantity (1)
- Subsidy area (GLRP2) (1)
- Incidence of subsidy area between consumers and producers (1)



**Evaluation (2+2 marks)**

- Discussion on magnitude of subsidy e.g. a small subsidy will have relatively little impact.
  - Discussion on the time period in which subsidy may be offered e.g. a short period of time will have relatively little impact.
  - Discussion on the time to implement improvements in bus and rail travel, for example, provision of additional buses and trains.
  - Discussion of impact on government finances: an opportunity cost / taxes may have to rise / government spending may fall elsewhere / increase in government borrowing / impact on future generations.
  - Discussion of price elasticity of demand, that is, public take-up of cheaper bus and rail travel. This could include consideration of the incidence of subsidy between producers and consumers.
  - The subsidy may lead to inefficiency in bus and rail travel as firms become dependent on government funds.
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