



A-Level Edexcel Economics: Types of Economies Mark Scheme

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Question 1

Answer	Mark
Answer D (1 mark) <ul style="list-style-type: none"> Definition of mixed economy (e.g. resources are partly allocated by the price mechanism / market and partly by the government / state) (1 mark). <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Definition of a free market economy (e.g. resources are allocated by the price mechanism / demand & supply) 	

Question 2

Answer	Mark
B (1 mark) <ul style="list-style-type: none"> Definition of public goods (non-rivalry and non-excludability) Also accept non-rejectable as one of these characteristics. (1 mark). Definition of a free market economy (the price mechanism is used to allocate resources) (1 mark). Explanation of free rider problem: it is possible for people to consume a good without paying for it once it is provided / so little incentive for producers to provide sufficient quantities or there is under-provision (1+1 marks). Example of a public good, for example, defence, street lighting, lighthouses, flood defence schemes. (1 mark). 	(4)

Question 3

Answer	Mark
Answer D <ul style="list-style-type: none"> • Definition of free market economy (where resources are allocated by the price mechanism and there is no government intervention) (1 mark). • Definition of the price mechanism (1 mark). • Application of price mechanism to rationing: eg an increase in price will cause demand to fall / diagrammatic analysis (up to 2 marks). • Explanation of scarcity / basic economic problem (up to 2 marks) 	(4)

Question 4

Knowledge 4, Application 4, Analysis 6

Functions of the price mechanism to allocate resources:

- rationing
- incentive
- signalling

Market diagrams for tobacco and e-cigarettes, making use of supply and demand analysis.

- * Consumers with knowledge of the potential harm of cigarette smoking may quit smoking.
- * Smokers will maximise their private utility
- * Consumers will decide what is in their best interests
- * Reduction in smoking will happen automatically, without government intervention, as e-cigarettes become popular.

Candidates may refer to Adam Smith
Consumers free to pursue own self interest
Profit incentive will mean firms will want their consumers to live long – so move out of tobacco and into e-cigarette market.

Without government regulations e-cigarettes market will be easier for new firms to enter thus improving competition.

Competition between e-cigarette manufacturers to maximise profits will drive health improvements and lower costs making them more price competitive.

Candidates may refer to Friedrich Hayek
Resource allocation from tobacco to e-cigarettes will be brought about by market forces, which will be far superior to any state planning system.
Individuals do not have perfect information on cigarettes but have the best knowledge of their own situation. The price mechanism acts as a communication network, markets are self-correcting. Government lacks sufficient information about everything happening in the cigarettes market to be able to make informed decisions.

(14)

Indicative content	Mark
<p style="text-align: center;">Evaluation 6</p> <p>Failings of the price mechanism</p> <ul style="list-style-type: none"> • Information gaps • Asymmetric information • Externalities • Peer pressure ignores utility • Habit forming distorts utility <p>Possible different disadvantages or approaches :</p> <ul style="list-style-type: none"> * While consumers may maximise their private utility $MSC > MSB$, with explanation. e.g. passive smoking/health care costs * Without government intervention the oligopolistic/monopolistic power of cigarette firms, in the form of advertising and propaganda, will go unchecked <p>Candidates may refer to Karl Marx Consumers exploited in past by misinformation on tobacco and due to being addictive they become dependent. Competition and the need to profit maximise will mean firms cut costs risking consumers health and increase prices thus reducing consumer surplus. Nature of free market is for powerful monopolies to emerge that can further exploit consumers.</p>	(6)