

Four original data-response cases in the shape the paper uses: a short extract, then questions rising from definition to evaluation. The figures are illustrative, not official statistics – they are chosen so the economics works, which is what the exam tests.

Case 1 – A sugar tax

EXTRACT. In 2023 the government of Aria introduced a tax of \$0.20 per litre on sugary drinks. In the first year, sales of taxed drinks fell 8% while sales of untaxed diet drinks rose 15%. Tax revenue was \$310 million. Producers passed on about 75% of the tax to consumers. Two bottling plants announced 200 redundancies. Health officials reported no measurable change in obesity in the first year.

I Define an indirect tax. [2]

An indirect tax is a tax on expenditure, levied on a good or service rather than on income or wealth, and collected by the seller who may pass some of it on to the consumer in a higher price.

Commentary: The definition mark is ‘a tax on expenditure’. The second mark is the incidence point – that it is collected by the seller and partly passed on.

I With the help of a diagram, explain the effect of the tax on the market for sugary drinks. [4]

The tax raises producers’ costs, shifting the supply curve up and to the left by the amount of the tax, from S to S_1 . Equilibrium price rises from P to P_1 and equilibrium quantity falls from Q to Q_1 . Because producers passed on 75% of the tax, the price rise is about \$0.15, which means demand is relatively inelastic – most of the burden falls on consumers.

Commentary: Axes labelled price and quantity of sugary drinks, both curves labelled, the shift shown vertically by the tax, and the new equilibrium marked. Without those labels the diagram earns nothing.

Commentary: The last sentence is the analysis mark: it USES the 75% figure from the extract to infer relative elasticity, rather than restating it.

I Assess whether the sugar tax has been successful. [8]

It depends on which objective is being judged. As a revenue-raising measure it succeeded: \$310 million was collected, and because demand proved inelastic the revenue is stable. As a health measure the evidence is weaker – an 8% fall in sales with no measured change in obesity in one year, and the 15% switch to diet drinks suggests substitution rather than a fall in total consumption.

Commentary: Naming the criterion FIRST is what turns this into evaluation rather than description.

Commentary: Add the time dimension: ‘one year is too short to judge a health outcome, since obesity responds with a long lag, so the absence of change is not evidence of failure.’

Commentary: Add the cost side: ‘200 redundancies are a real cost, though small relative to the revenue, and the tax is regressive – it takes a larger share of a low income.’

Commentary: Conclude by deciding: ‘On the evidence available the tax is a successful revenue measure and an unproven health measure; judged against its stated health aim it is too early to call it a success, and the substitution to diet drinks suggests the design is working as intended.’

Case 2 – Minimum wage in a developing economy

EXTRACT. Borland raised its national minimum wage by 22% in one step. In the following year, formal-sector employment fell by 1.5% while average wages in the formal sector rose 9%. Employment in the informal sector, which is not covered by the law, rose by 4%. Consumer spending rose 3%. Small firms reported the largest job losses; large firms reported almost none.

I Explain why a minimum wage may cause unemployment. [4]

A minimum wage set above the equilibrium wage creates excess supply of labour: at the higher wage more workers are willing to work, while firms demand fewer because the marginal cost of labour now exceeds the marginal revenue product of some workers. The gap between quantity supplied and quantity demanded is unemployment.

Commentary: The chain is: above equilibrium → excess supply → the gap IS the unemployment. Stopping at ‘firms cannot afford it’ is one mark, not four.

I Discuss whether the minimum wage rise was good for Borland’s economy. [12]

The case for: wages rose 9% and consumer spending 3%, so the policy raised incomes and aggregate demand, and reduced in-work poverty. Formal employment fell only 1.5%, which is small against a 22% wage rise – evidence that demand for labour was relatively inelastic, as monopsony theory predicts when a few large employers dominate.

Commentary: The case against: ‘the 4% rise in informal employment suggests workers were pushed out of protected jobs into unprotected ones, where the minimum wage does not apply – so the measured unemployment understates the harm.’

Commentary: Distributional point: ‘small firms bore the cost while large firms did not, so the policy may have reduced competition.’

Commentary: Evaluation by criterion: ‘judged on incomes it succeeded; judged on formalisation it may have failed; judged on employment the cost was modest.’

Commentary: A conclusion that decides: ‘On balance the rise was beneficial, because the income gain reached many workers while the employment loss was small – but the informal-sector shift is a warning that a second rise of this size would likely cost more than it gained.’

Case 3 – Exchange-rate depreciation

EXTRACT. The Calder dollar fell 18% against its trading partners' currencies over a year. Export volumes rose 6% and import volumes fell 3%. The current-account deficit narrowed from 5.2% to 4.1% of GDP. Inflation rose from 2.1% to 5.4%. Manufacturers reported higher costs for imported components. The central bank raised interest rates by 1.5 percentage points.

I Explain, using the Marshall–Lerner condition, why the current account improved. [4]

Depreciation makes exports cheaper in foreign currency and imports dearer in domestic currency. The current account improves only if the sum of the price elasticities of demand for exports and imports exceeds one. Here export volumes rose 6% and import volumes fell 3% after an 18% depreciation, so the combined response was large enough for the value effect to outweigh the price effect and the deficit narrowed.

Commentary: Name the condition, state it, then apply the extract's numbers to it. Naming a theory without using the data is half the marks.

I Evaluate the effects of the depreciation on Calder's economy. [12]

The current-account improvement is real but partial – the deficit narrowed by 1.1 percentage points, not eliminated. Against it, inflation rose from 2.1% to 5.4%, which is cost-push: imported components cost more in domestic currency and manufacturers passed this on.

Commentary: Add the second-round effect: 'the central bank's 1.5-point rate rise will reduce investment and consumption, so the demand-side gain from higher exports is partly offset by tighter monetary policy.'

Commentary: Add the J-curve: 'the improvement may understate the eventual gain, since volumes respond with a lag while prices change immediately.'

Commentary: Conclude on a criterion: 'the depreciation improved external balance at the cost of internal balance. Whether that trade is worthwhile depends on which imbalance was more damaging – and with inflation now above target and the deficit still above 4%, Calder has traded one problem for another rather than solving either.'

Case 4 – Market power in a digital market

EXTRACT. One firm holds 78% of Delta's online search market. Its service is free to users and funded by advertising. Advertising prices have risen 40% in three years. The firm spends 12% of revenue on research and development, well above the sector average. A regulator has proposed forcing it to share its data with rivals.

I Explain two barriers to entry in this market. [4]

Network effects: the service improves as more people use it, because more searches produce better results, so a new entrant offers a worse product from day one regardless of its technology. Second, the sunk cost of building and indexing a comparable database is very large and cannot be recovered on exit, which deters entry even when profits are high.

Commentary: Two DIFFERENT barriers, each explained with a mechanism. Two versions of 'it is very big' is one point.

I Evaluate whether the regulator should force the firm to share its data. [12]

The case for intervention is the 40% rise in advertising prices with no corresponding rise in costs, which suggests the firm is exercising market power and extracting producer surplus from advertisers, ultimately raising the prices consumers pay for advertised goods.

Commentary: The case against: ‘the firm reinvests 12% of revenue in R&D, above sector average – dynamic efficiency. Supernormal profit funds innovation, and forcing data sharing reduces the incentive to build the asset in the first place.’

Commentary: The consumer-welfare complication: ‘the service is free at the point of use, so the standard monopoly harm of a high price does not appear where consumers can see it. The harm is in the advertising market and reaches consumers indirectly.’

Commentary: Government failure: ‘a regulator may lack the information to design the remedy, and mandated sharing raises privacy questions the extract does not address.’

Commentary: Decide: ‘intervention is justified because the price evidence points to abuse in the advertising market, but data sharing is the wrong remedy – it attacks the source of the firm’s dynamic efficiency. A price or transparency remedy in the advertising market targets the identified harm more precisely.’