

Three answers written so the marks are visible: a definition, an analysis with a diagram, and an evaluation. The italic commentary names what each sentence earns. The pattern is the same every time – define, analyse in a chain, evaluate with a criterion.

Definition and application

I Define price elasticity of demand. [2]

Price elasticity of demand is the responsiveness of quantity demanded to a change in price, measured as the percentage change in quantity demanded divided by the percentage change in price.

Commentary: One mark for the idea of responsiveness, one for the measure. A definition giving only the formula usually earns one.

I Explain why the demand for petrol is price inelastic. [4]

Demand is price inelastic when quantity demanded changes proportionately less than price. Petrol has few close substitutes in the short run, since most drivers cannot switch fuel or vehicle quickly, and for most households it is a small share of total spending. A 10% rise in price therefore reduces quantity demanded by less than 10%, so PED is between 0 and -1 .

Commentary: The determinants are the marks: substitutes, share of income, time period. Naming two and explaining them beats listing four.

Commentary: Ending with the numerical implication shows the definition has been applied rather than recited.

Analysis with a diagram

I With the help of a diagram, analyse the effect of a per-unit subsidy on the market for solar panels. [8]

A subsidy reduces producers' costs, shifting the supply curve vertically downwards by the amount of the subsidy, from S to S_1 . The equilibrium price falls from P to P_1 and quantity rises from Q to Q_1 , as shown. Because demand slopes downward, the price paid by consumers falls by less than the full subsidy: the remainder is retained by producers, so the incidence is shared, and the split depends on the relative elasticities. Consumer surplus rises by the area beneath the demand curve between the two prices, and the government bears a cost equal to the subsidy multiplied by the new quantity.

Commentary: Axes labelled, both curves labelled, both equilibria labelled – that is the first mark and it is unconditional.

Commentary: 'As shown' points the examiner at the diagram; an analysis that never refers to its own diagram loses the application mark.

Commentary: The incidence sentence is the analysis mark: it explains WHY the consumer's gain is less than the subsidy.

Evaluation

I Evaluate whether a subsidy is the best way to increase solar panel installation. [12]

A subsidy raises output directly and corrects the under-provision caused by the positive externality of cleaner generation, so on efficiency grounds it addresses the market failure precisely. Against that, it has an opportunity cost: the funds could finance insulation, which may abate more carbon per dollar, and if supply is inelastic in the short run much of the subsidy is captured by producers as higher margins rather than by consumers as lower prices. Its effectiveness therefore turns on two things – the price elasticity of supply, since an inelastic supply wastes the subsidy on rents, and whether the external benefit exceeds the cost per unit installed. On the evidence that panel supply is now elastic and external benefits are substantial, a subsidy is justified, though a declining rate would avoid entrenching dependence once costs have fallen.

Commentary: The judgement is present AND rests on a stated criterion. ‘It depends’ without naming what it depends on earns nothing.

Commentary: Opportunity cost is the strongest evaluative move available in this paper and is rarely used.

Commentary: The final qualification shows awareness of the answer’s own conditions, which is what separates the top band.