Past-paper walk-through

Consumer and producer surplus ▪ 2.5

eXercise

Questions in this set

- 9708/22 N25 Q2 ▪ 20 marks
- 9708/1 23 Q11 ▪ 1 mark
- 9708/1 23 Q12 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 2

9708/22 N25 ▪ Q2 ▪ 20 marks

2 (a) With the help of a diagram, explain the difference between producer surplus and consumer surplus and consider the extent to which producers always gain when the price of a product increases due to higher costs of production. [8] (b) Assess the view that a business should be more concerned about the income elasticity of demand for its product than its cross elasticity of demand when incomes are falling. [12] OR

(a) (a) With the help of a diagram, explain the difference between producer surplus and consumer surplus and consider the extent to which producers always gain when the price of a product increases due to higher costs of production. [8] **[8]**

(b) (b) Assess the view that a business should be more concerned about the income elasticity of demand for its product than its cross elasticity of demand when incomes are falling. [12] **[12]**

Solution 2

(a) Mark scheme

- With the help of a diagram, explain the difference between producer
- surplus and consumer surplus and consider the extent to which
- producers always gain when the price of a product increases due to
- higher costs of production.
- Follow the point-based marking guidance at the top of this mark scheme and
- award:
- up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2
- Analysis

Solution 2

- up to 2 marks for AO3 Evaluation.
- AO1 Knowledge and Understanding (max 3 marks)
- For an fully accurately drawn diagram that clearly shows the area of consumer
- surplus below the demand curve and producer surplus above the supply curve
- (1) and that clearly explains that consumer surplus represents the difference
- between what a consumer is prepared to pay for a product and its market price
- (1) and that producer surplus represents the difference between what a
- producer is willing to accept and what is actually paid (1).
- AO2 Analysis (max 3 marks)
- For a correct diagram showing the effect of the higher cost of production on the

Solution 2

- price of the product (1) and explains the impact on the producer in terms of an
- increase /fall in revenue if the PED is inelastic (1) or elastic (1). The impact may
- also depend on whether PES is elastic / inelastic affecting the producer's ability
- to respond to the price increase 1
- Guidance: The same diagram can be used for both Knowledge and
- Understanding and analysis.
- AO3 Evaluation (max 2 marks)
- The extent to which producers will always gain will depend on the value of PED
- (1) the value of PES (1) leading to a reasoned conclusion 1
- 8

Solution 2

- AO1 Knowledge and understanding
- 3
- AO2 Analysis
- 3
- AO3 Evaluation
- 2
- 9708/22
- October/November
- 2025

Solution 2

(b) Mark scheme

- Assess the view that a business should be more concerned about the
- income elasticity of demand for its product than its cross elasticity of
- demand when incomes are falling.
- Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table
- B: AO3 Evaluation to mark candidate responses to this question.
- AO1 and AO2 out of 8 marks. AO3 out of 4 marks.
- Indicative content
- Responses may include:

Solution 2

- AO1 Knowledge and understanding and AO2 Analysis
- ▪
- Analysis of the advantages and disadvantages of using income elasticity
- of demand. For example, it lets the business know whether it produces
- inferior or normal goods and therefore what to produce more of when
- incomes are falling but businesses may not be so flexible. Alternatively,
- the predictions may be incorrect or the same measurement may not be
- applicable to all households.
- ▪
- Analysis of the advantages and disadvantages of using cross elasticity of

Solution 2

- demand. For example, for substitutes, it allows businesses to track the
- actions of competitors when incomes are falling. For complements,
- businesses can try to ensure they are aware of the impact on their own
- products depending on the impact on the complement. However, data
- may be out of date and make it unreliable.
- Level 1 responses will be assertive and lacking in explanations / mainly
- descriptive and/or or mainly lacking in relevance to the question.
- Level 2 responses may contain some inaccuracies and may be one sided.
- Analysis will be explained at least in part and will be largely relevant to the
- question.

Solution 2

- Level 3 responses will consider alternative policies / concepts etc. and will
- be balanced. Explanations of points raised will be offered and will be accurate
- and relevant to the question.
- Guidance: Answers that do not refer to falling incomes cannot gain more than
- a mid-Level 2 mark.
- AO3 Evaluation
- That clearly analyses both sides of the question and comes to a valid
- conclusion.
- Accept all valid responses.
- A one-sided response cannot gain any marks for evaluation.

Solution 2

- 12
- 9708/22
- October/November
- 2025
- AO1 Knowledge and understanding and AO2 Analysis
- 8
- AO3 Evaluation
- 4
- 9708/22
- October/November

Solution 2

- 2025
- OR

Question 11

9708/1 23 ▪ Q11 ▪ 1 mark

11 A government imposes a specific indirect tax on a product.

When will the tax cause the greatest reduction in consumer surplus for the buyers of the product?

A When the product has price elastic demand and price elastic supply.

B When the product has price elastic demand and price inelastic supply.

C When the product has price inelastic demand and price elastic supply.

D When the product has price inelastic demand and price inelastic supply.

Solution 11

Answer: **C**

Question 12

9708/1 23 ▪ Q12 ▪ 1 mark

12 The table shows the maximum amount three students would each be willing to pay for a taxi to take them home from a nightclub.

	$
Jane	10.00
Sara	8.00
Yasmin	6.00

The fare for the taxi is $12. Assume they share the taxi fare as shown in the table below.

Which row shows how much they each should pay so that they each obtain the same consumer surplus?

Question 12

	Jane $	Sara $	Yasmin $
A	2.00	4.00	6.00
B	4.00	4.00	4.00
C	5.00	4.00	3.00
D	6.00	4.00	2.00

Solution 12

Answer: **D**