Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- a cost imposed on a third party who is not the buyer or the seller (2 for a clear definition; 1 for a partial idea)

2.2

- social cost is greater than private cost (1)

2.3

- any two of: public goods (free-rider problem); merit/demerit goods (information failure); monopoly power; asymmetric information; inequality (1 + 1)

3.1 B

- A negative externality means marginal social cost is above marginal private cost

3.2

- *[8]* AO1 1 + **AO3 diagram up to 4** (MPC, MSC above it, Q_m where MPC = MPB, Q^* where MSC = MSB, welfare-loss triangle) + AO2/AO3 up to 3 — the market produces where private cost meets private benefit (Q_m), but the true social cost is higher, so the optimum Q^* is lower
- the market over-produces and there is a welfare loss

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** externalities (pollution, congestion) impose large costs on third parties and are widespread. **Against:** public goods cause *complete* market failure (none supplied), and monopoly or information failures can be just as damaging. Judgement: the most serious failure depends on the market — externalities matter hugely for the environment, but public-good and information failures dominate elsewhere