## 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**

- producing the combination of goods that people most want, where price equals marginal cost (2 for a clear definition; 1 for a partial idea)

**2.2**

- producing at the lowest possible average cost (at the minimum of the ATC curve) (1)

**2.3**

- any two of: monopoly power; externalities; public goods; information failure; factor immobility (1 + 1)

**3.1 B**

- Allocative efficiency is where price equals marginal cost

**3.2**

- *[6]* AO1 2 + AO3 up to 4 — productive efficiency means making goods at the lowest possible cost (minimum ATC), using the fewest resources; allocative efficiency means producing the goods consumers most want, at the point where price equals marginal cost
- one is about *how* cheaply goods are made, the other about *which* goods are made

**3.3**

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** perfect competition delivers both productive and allocative efficiency, and the price mechanism guides resources well. **Against:** real markets have monopoly power, externalities, public goods and information failure, so they fail to reach the social optimum. Judgement: a free market can be efficient under ideal (perfect-competition) conditions, but real-world failures usually require government intervention — it depends on the market