

Multiple Choice Answers

Q1: A

Q6: A

Multiple Choice Answers

Q7: D

1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.
0	No creditable response.

1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.
0	No creditable response.

1(a)	Explain the meaning of 'allocative and productive efficiency'. Allocative efficiency is when firms produce what consumers want (1) $MC=AR/MC = P$. (1) Productive efficiency is producing goods and services with the least use of resources. (1) Production on the lowest average cost curve/ minimum average cost/AC =minimum (1) Producing on the PPC 1
1(b)(i)	Explain what is meant by a negative production externality. A cost 1 that is born by someone other than the producer of the good/a third party 1
1(b)(ii)	Identify from the extract, a negative production externality resulting from steel production. Noise, dirt or polluted air 1 Max 1 mark
1(b)(iii)	Explain, with the aid of a diagram, the consequences for output and price if the steel market is required to take into consideration negative production externalities. Labels 1 Axes 1 and explicit indication of negative externality 1 Comment: Quantity falls from Q to Q₁ 1 and Price increases from P to P₁ 1 Welfare loss explained 1

1(c)	Consider whether ‘a monopoly always operates against the interests of the consumer’. In favour of monopoly : • Economies of scale 1, + explanation 1 • Investment in research and development 1, + explanation 1 Natural monopoly e.g. railways 1, + development 1 Max 4 Against monopoly: Loss of productive efficiency 1 + explanation 1 Loss of allocative efficiency 1 + explanation 1 Lack of dynamic efficiency 1 + explanation Or: A diagram showing the loss of allocative and productive efficiency Axes/Labels 1 correct costs and revenues 1 loss of AE 1 loss of PE 1 Max 4 Max 7 for argument Conclusion: 1
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