Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

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

2.1

non-rivalry: one person's consumption does not reduce the amount available to others; non-excludability: it is not possible (or too costly) to stop people who have not paid from using it

2.2

everyone in the city is protected whether they pay or not, so people free ride; the firm cannot earn revenue to cover its costs, so it will not provide it: missing market

2.3

healthcare is allocated by ability to pay; people on low incomes may not afford treatment they need, so need and use differ; illness itself reduces income (people cannot work), making the problem worse; patients have less information than doctors, so they may not choose well; private insurers may refuse high-risk people

2.4

(i) public good: non-rivalrous and non-excludable; (ii) club good: excludable by the fee, non-rivalrous until crowded; (iii) common pool resource when crowded: rivalrous (space runs out) but non-excludable

2.5

$45\,000\,000 \div 1\,500\,000 = \$\mathbf{30}$ per person; the benefit (safety, less crime, longer trading hours) is valued differently by each person; because people cannot be charged, there is no price to show how much they value it, so the government must estimate it

3.1

(a) fairness; in the distribution of income, wealth or access to goods and services, which is not the same as equality

(b) all children get schooling whatever their family's income; education raises future skills and earnings, so it reduces inequality over time; positive externalities also benefit society; but it has a large opportunity cost and is paid for by taxes; quality may differ between rich and poor areas, so inequality may remain; richer families may still buy extra tutoring; judgement: a strong long-run policy, best combined with transfers and good-quality schools in poor areas

3.2

advantages, any two: the private firm may be more efficient / have more expertise; the government avoids large up-front borrowing or building costs; clear contract targets can improve quality; disadvantage, any one: the firm aims for profit, so it may cut quality or charge high fees in the contract; the contract may be hard to monitor

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