



A-level ECONOMICS 7136/1

Paper1 MarketsandMarket Failure
Mark scheme

June 2026

Version: 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

Further copies of this mark scheme are available from aqa.org.uk

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Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Section A

Below is the levels of response marking grid to be used when marking any 25-mark question.

Level of response	Response	Max 25 marks
5	Sound, focused analysis and well-supported evaluation that: • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	21–25 marks
4	Sound, focused analysis and some supported evaluation that: • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	16–20 marks
3	Some reasonable analysis but generally unsupported evaluation that: • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	11–15 marks
2	A fairly weak response with some understanding that: • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	6–10 marks
1	A very weak response that: • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	1–5 marks

Section A

Context 1

Total for this context: 40 marks

0 1

Using the data in **Extract A (Figure 1)**, calculate the nominal value of total farm income in 2011, given that the consumer price index was 79 in 2011 and 100 in 2023.

Give your answer to the nearest million pounds.

[2 marks]

Calculation: £36 503m x 0.79 = £28 837.37m

Correct answer is: £28 837 million (or £28.837 billion or £28 837 000 000)

Response	Max 2 marks
For the correct answer, to the nearest million pounds, with £ sign: eg £28 837m	
~~For the correct answer but with one, two or three errors from without the £ sign and/or not to the nearest million and/or not rounded correctly: eg 28 837m or £28 837.37 or £28 838 or 28 837 or 28 838~~	2 marks
OR For the correct method but incorrect answer, with the £ sign and rounded correctly	1 mark

MAXIMUM FOR QUESTION 01: 2 MARKS

0 2

*Explain how the data in **Extract A (Figure 2)** show that income from ‘Crops and animal products’ is the most variable of all income sources for a typical farm.*

[4 marks]

Response:	Max 4 marks
- Includes evidence that shows how income from crops and animal products is the most variable of all income sources for a typical farm. - Clearly explains how this data is evidence that income from crops and animal products is the most variable of all income sources for a typical farm.	4 marks
- Includes evidence that shows how income from crops and animal products is the most variable of all income sources for a typical farm. - Explanation of how this data is evidence that income from crops and animal products is the most variable of all income sources for a typical farm.	3 marks
- Includes some evidence that shows how income from crops and animal products is the most variable of all income sources for a typical farm. - Limited explanation of how this data is evidence that income from crops and animal products is the most variable of all income sources for a typical farm.	2 marks
- Includes evidence that does not clearly show income from crops and animal products is the most variable of all income sources for a typical farm. - No explanation of how this data is evidence that income from crops and animal products is the most variable of all income sources for a typical farm.	1 mark

Relevant issues include:

income from subsidies ranges between £22 000 to £35 000, income from other farm activities ranges between £16 000 and £28 000, whilst income from crops and animal products has a much larger range between –£5 000 and £45 000

- income from crops and animal products can vary enormously from one year to the next (for example from £5 000 in 2021 to £38 000 in 2022)
- explanation that there are more peaks and troughs in the income from the crops and animal products line than in the other two lines, suggesting greater variability
- explanation of why income from crops and animal products may be highly variable
- explanation of how the income data for crops and animal products is net of operating costs so may reflect variability in both costs and revenue.

Allow a margin of +/- £2000.

MAXIMUM FOR QUESTION 02: 4 MARKS

0 3 **Extract B** (lines 5–6) states: ‘Much of the income from a farm is dependent on the weather, which is becoming more unpredictable and extreme due to climate change.’

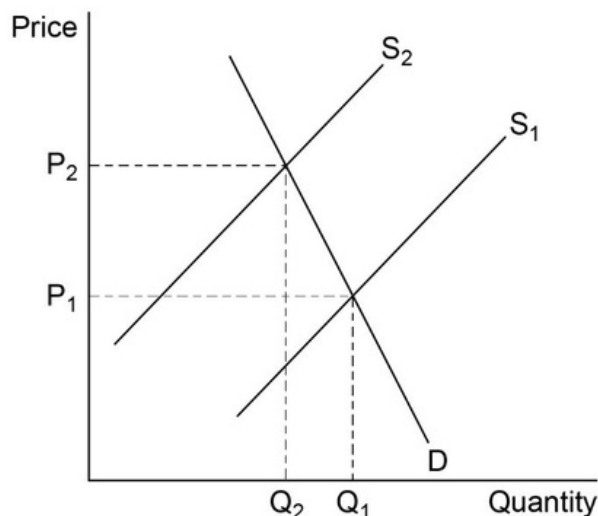
Using a diagram, explain how changes in the weather can affect the income of farmers.

[9 marks]

Level of response	Response:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4–6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus • and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

A supply and demand diagram is expected, showing the impact of a supply-side shock. This could be a negative or positive supply-side shock or both. Also, allow a diagram showing a demand-side shock provided it is accompanied by a plausible explanation.

Expected diagram is:



Relevant issues include:

- definition of total income as the quantity sold multiplied by the price (or average revenue)
- analysis of how certain weather events may impact on income via
 - reduction in crop harvests (for example a flood, a drought or a hurricane)
 - increase in crop harvests (for example an unusually sunny period)
 - impacting the output from animal farms (for example a reduction in sunlight affecting egg-laying hens)
- how changes in the weather may reduce (or increase) the total supply of a product and thus contribute to rising (or falling) prices
- analysis of how weather may affect revenue via a shift in demand (for example in warmer periods there may be more demand for salad ingredients)
- analysis of how the existence of monopsony buyers and/or the ability to import affects the income of farmers when there are changes in the weather
- explanation of how the price elasticity of demand is likely to affect revenue for a given supply-side shock
- explanation of how the price elasticity of supply is likely to affect revenue for a given demand-side shock
- explanation of how changes in the weather may affect income from 'other farm activities' such as holiday lets.

MAXIMUM FOR QUESTION 03: 9 MARKS

0 4 **Extract C** (lines 14–16) states: ‘Farming groups are calling for the new subsidy regime to be more generous to farmers and simpler to claim. They are pushing for more assistance to help farmers affected by floods and other natural disasters.’

Evaluate the view that the Government should provide more financial support for agriculture.

[25 marks]

Areas for discussion include:

• explanation of the types of financial support that are, or potentially could be, provided by the

Government to the agriculture sector

- analysis of the recent problems facing UK farmers
 - o unpredictable weather causing high rainfall and floods
 - o change to farming subsidies
 - o reduction in average subsidies compared to those provided previously by the EU
 - o move away from subsidies based on farm size / acreage and towards environmental stewardship and biodiversity
 - o other factors (for example recent changes to inheritance tax thresholds)
- analysis of the monopsonistic power of supermarkets and food retailers in buying the output of UK farmers
- discussion of the environment as a merit good, linked to the rationale for the Government changing the basis of subsidies
- discussion of the fact that farmers' confidence is extremely low and the impact this might have on future decisions
- evaluation of the response that farmers have already made to the problems in the sector, including selling farms to large farming companies, rewilding or finding alternative uses for their land (for example planting biofuel crops) and diversifying into other activities such as tourism
- analysis and evaluation of possible policy responses that the Government might consider, including
 - o changing the basis of the subsidies provided
 - o offering more generous subsidies to farmers
 - o providing targeted help for those farms that suffer from environmental disasters or weather shocks
- analysis and evaluation of the impacts of the above policy responses on
 - o investment and production
 - o price for consumers
 - o the labour market for farmers
 - o the environment
 - o food security and self-sufficiency
- evaluation of the opportunity cost of providing additional support to farmers
- market failure arguments
- government failure arguments
- an overall assessment of whether the Government should provide more financial support for agriculture.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

Context 2

Total for this context: 40 marks

0 5 Using the data in **Extract D (Figure 3)**, calculate the percentage of UK veterinary practices owned by the largest 5 firms.

Give your answer to **one decimal place**.

[2 marks]

Calculation: $(1074+447+405+392+383)/4920 \times 100 = 54.898\%$

Correct answer is: 54.9%

Response	Max 2 marks
For the correct answer, to one decimal place, with % sign: 54.9%	
~~For the correct answer, to one decimal place, but without the % sign: 54.9~~	2 marks
OR For the correct answer, with the % sign, but rounded incorrectly: eg 54.8% or 54.898% OR For the correct method but incorrect answer, with the % sign and rounded correctly	1 mark

MAXIMUM FOR QUESTION 05: 2 MARKS

0 6 Explain how the data in **Extract D (Figure 4)** show increasing monopoly power in the market for veterinary services.

[4 marks]

Response:	Max 4 marks
- Includes evidence that shows increasing monopoly power in the market for veterinary services. - Clearly explains how this data is evidence of increasing monopoly power in the market for veterinary services.	4 marks
- Includes evidence that shows increasing monopoly power in the market for veterinary services. - Explanation of how this data is evidence of increasing monopoly power in the market for veterinary services.	3 marks
- Includes some evidence that shows increasing monopoly power in the market for veterinary services. - Limited explanation of how this data is evidence of increasing monopoly power in the market for veterinary services.	2 marks
- Includes evidence that does not clearly show increasing monopoly power in the market for veterinary services. - No explanation of how this data is evidence of increasing monopoly power in the market for veterinary services.	1 mark

Relevant issues include:

• explanation of monopoly power

- explanation of the link between increasing monopoly power and rising market prices
- explanation of the difference between real and nominal data
- the price index for veterinary services rises faster than for all goods and services, indicating real

price rises

- the price index for veterinary services rises from an index of 110 to 120 (9%) even when the index for all goods and services is relatively flat between 2019 and 2021, ranging from 106 to 109
- there is a particularly marked increase in the price of veterinary services in the period since April 2022, from an index of 124 to 168 (35%) whilst the price of all goods and services has risen only from an index of 115 to 135 (17%)
- over the entire time period, the price of veterinary services has increased 68%, whilst the price of all goods and services has risen only 35%.

Allow a margin of +/- 2 index points.

MAXIMUM FOR QUESTION 06: 4 MARKS

0 7 **Extract E** (lines 5–7) states: ‘According to the Competition and Markets Authority (CMA), almost 60% of practices are now owned by large companies, up from 10% in 2013. These companies benefit from economies of scale.’

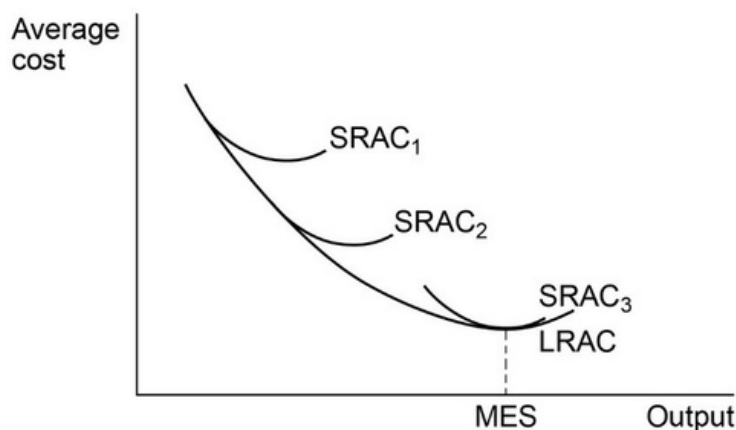
With the help of a diagram, explain how large veterinary companies can benefit from economies of scale.

[9 marks]

Level of response	Response:	Max 9 marks
3	is well organised and develops one or more of the key issues that - are relevant to the question - shows sound knowledge and understanding of relevant economic terminology, concepts and principles - includes good application of relevant economic principles and/or good use of data to support the response - includes well-focused analysis with a clear, logical chain of reasoning - includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	- includes one or more issues that are relevant to the question - shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present - includes reasonable application of relevant economic principles and/or data to the question - includes some reasonable analysis but it might not be adequately developed and may be confused in places - may include a relevant diagram.	4–6 marks
1	- is very brief and/or lacks coherence - shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely - demonstrates very limited ability to apply relevant economic principles and/or data to the question - may include some very limited analysis but the analysis lacks focus and/or becomes confused - may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

A downward sloping long-run average cost curve (LRAC) is expected. It may, or may not, show the LRAC enveloping a number of SRAC curves. Both L-shaped and U-shaped LRAC curves are acceptable.

Expected diagram is:



Relevant issues include:

- definition and explanation of economies of scale
- distinction between internal and external economies of scale
 - o explanation of how the market has changed and the majority of veterinary practices are now owned
- by large groups
 - o analysis of how larger veterinary companies can reduce their average costs of production via
 - o pooling their buying power over medication and other treatments to obtain lower average costs
 - o pooling their managerial overheads (for example HR, IT and marketing)
 - o offering complementary services such as referral centres and laboratories
 - o any other relevant internal economies of scale, eg marketing or financial economies
- analysis of the benefits of relevant external economies of scale.

Reward students who analyse how firms may benefit from economies of scale, eg ability to charge lower prices.

MAXIMUM FOR QUESTION 07: 9 MARKS

0 8

Extract F (lines 1–2) states: ‘In 2024, the CMA became concerned that the UK veterinary services market might not be working well for pet owners or vets.’

Using the extracts and your knowledge of economics, evaluate the view that the CMA should regulate the veterinary services market to ensure that it is serving the interests of consumers.

[25 marks]

Areas for discussion include:

- explanation of what is meant by serving the interests of consumers (price, choice, convenience, reliability, accessibility)
- explanation of how the market for veterinary services has evolved
- explanation of the role of the CMA
- explanation of possible policies that the CMA could use (including breaking up large firms, price regulation, requiring improvements in information provided to consumers)
- analysis and evaluation of the impact of the consolidation of practices into large groups in terms of prices and profits
- analysis and evaluation of market failures and arguments for CMA regulation
 - o rising real prices of services
 - o imperfect / asymmetric information
 - o consumer inertia
 - o increasing monopoly power
 - o consumers unlikely to shop around for better prices when their pet is very ill
- analysis and evaluation of arguments against CMA regulation
 - o the market has responded to increasing demand by increasing supply
 - o no clear evidence of excessive profits at the expense of consumers
 - o large veterinary companies are able to obtain economies of scale
 - o large veterinary companies can invest in new technology and treatments if they are permitted to make profits
 - o veterinary services are not homogenous and prices depend on many factors, making price regulation complicated
- evaluation of government failure issues including imperfect information and regulatory capture
- an overall assessment of whether the CMA should regulate the veterinary services market to ensure that it is serving the interests of consumers.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

Section B

Below is the levels of response marking grid to be used when marking any 15 mark-question.

Level of response	Response	Max 15 marks
3	A good response provides an answer that: • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	11–15 marks
2	A reasonable response provides an answer that: • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	6–10 marks
1	A weak response provides an answer that: • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	1–5 marks

Section B

Essay 1

Total for this essay: 40 marks

0 9

Explain how specialisation and division of labour affect labour productivity and a firm's average cost of production.

[15 marks]

Relevant issues include:

- definition of specialisation, division of labour, labour productivity and average cost
- explanation of what specialisation means in different firms
- analysis of how specialisation by firms affects labour productivity
- analysis of how specialisation by workers (through the division of labour) affects labour productivity
 - o workers become more skilled through practice and repetition
 - o workers do not waste time deciding on priorities or on complex tasks
 - o lower training costs and less time spent on training as workers need relatively few skills
 - o potentially easier to monitor output if labour have specific tasks and therefore offer incentives for increased productivity
- analysis of the link between labour productivity and a firm's average cost of production
- explanation of why division of labour may mean that wage rates are lower and the implications of this for a firm's average cost of production
- use of examples.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

1 0

Assess the view that the Government should intervene in labour markets to reduce differences in wages.

[25 marks]

Areas for discussion include:

- explanation of how wage differentials arise in a market economy
- explanation of the role of wage differentials in a market economy
- recognition of the role of the Government as the UK's largest employer (eg civil servants, NHS staff, teachers)
- arguments for Government intervention to reduce wage differentials
 - o reducing poverty and inequality
 - o reducing reliance on benefits
 - o to combat wage discrimination
 - o social cohesion arguments
 - o possible productivity gains (eg efficiency wage argument)
- arguments against Government intervention to reduce wage differentials
 - o disincentive effects
 - o 'brain drain' effects
 - o misallocation of resources
 - o possible reductions in productivity
 - o government failure arguments (eg unintended consequences)
- analysis and evaluation of possible Government interventions to reduce differences in wages
 - o national minimum wage
 - o wage subsidies
 - o changing marginal tax rates
 - o anti-discrimination legislation
 - o immigration policy
 - o maximum wages or maximum bonuses
 - o linking executive pay to some multiple of median workers' pay within the same firm
- discussion of moral and political considerations
- use of examples
- an overall view of whether the Government should intervene in labour markets to reduce differences in wages.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

Essay 2

Total for this essay: 40 marks

1 1 *Explain why, in a free market, demerit goods are likely to be overconsumed.*

[15 marks]

Relevant issues include:

• definition of free market and demerit goods

- recognising that the classification of a product as a demerit good depends on a value judgement • explanation of why this may mean that demerit goods are overconsumed
- explanation of why imperfect information may mean that demerit goods are overconsumed
- explanation of how demerit goods have negative externalities in consumption and possibly

production

- explanation of why negative externalities mean that demerit goods are overconsumed
- use of examples.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

- 1 2** *Assess the view that healthcare is best provided through the market rather than by government provision.*

[25 marks]

Areas for discussion include:

- discussion of the current situation regarding healthcare (improving technologies and treatments, ageing populations, rising costs)
- analysis of healthcare as a merit good with positive externalities on third parties from, for example, vaccinations
- analysis of the problem of asymmetric information in healthcare
- analysis and evaluation of how efficiency and choice might be greater in market-based healthcare systems
- analysis and evaluation of market-based healthcare systems such as in the USA
 - o paid for by the patient, or their insurer or employer
 - o different levels of service depending on ability to pay
 - o often short waiting times for treatments
- analysis and evaluation of how healthcare is provided in the UK mainly via the National Health Service
 - o free at the point of use
 - o mainly funded via taxation, with some payments for prescriptions, dentistry and other services
 - o standard levels of service to all, regardless of income, age or other characteristics
 - o some areas of healthcare are over-subscribed and subject to long waiting lists
- analysis and evaluation of how healthcare is provided in other countries using different systems, for example social insurance systems in countries like the Netherlands
- discussion of how health outcomes depend on several factors other than the healthcare system (for example nutrition, environmental factors, genetics)
- discussion of how health systems can be judged (cost, accessibility, equity, health outcomes, efficiency and so on)
- discussion of whether a mixture of a market-based system and government provision may lead to the best outcomes
- use of examples
- market failure arguments
- government failure arguments
- overall assessment of the view that healthcare is best provided through the market rather than by government provision.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

Essay 3

Total for this essay: 40 marks

- 1 3** *Explain the hypothesis of diminishing marginal utility and the relationship between marginal and total utility.*

[15 marks]

Relevant issues include:

- the meaning of utility
- definition and explanation of total utility
- definition and explanation of marginal utility
- explanation of the hypothesis of diminishing marginal utility and how this affects the relationship between marginal and total utility
- use of a table of figures to help explain total utility, marginal utility and the hypothesis of diminishing marginal utility
- explanation of how marginal utility may be negative in some cases and how this affects total utility
- use of examples.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

1 4

Discuss the view that imperfect information is the main reason why consumers may not act rationally, often failing to make choices that maximise their utility.

[25 marks]

Areas for discussion include:

- definition of rational decision making and utility maximisation
- explanation of rationality and why this is an important concept in economic theory
- explanation of the importance of information in making decisions
- analysis of how asymmetric information may affect the ability of consumers to make choices that maximise their utility
- discussion of the role of incentives in decision making
- analysis of how consumers might attempt to maximise their utility from their consumption decisions
- analysis and evaluation of the problems for utility maximisation caused by imperfect information
 - o moral hazard
 - o inefficient resource allocation
 - o issues caused by consumers being provided with too much information, or information that is hard to understand
- discussion of the approach taken by behavioural economics in challenging the assumption of consumer rationality
- analysis and evaluation of alternative reasons for consumer irrationality
 - o bounded rationality and bounded self-control
 - o biases in decision making: rules of thumb, anchoring, availability and social norms
 - o the importance of altruism and perceptions of fairness
 - o choice architecture and framing
 - o nudges by government or firms
 - o default choices, restricted choice and mandated choice
 - o the impact of advertising
- use of examples
- overall assessment of the view that imperfect information is the main reason why consumers may not act rationally, often failing to make choices that maximise their utility.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS