



A-level Economics

Paper 1 Markets and Market Failure

Monday 11 May 2026

Morning

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front cover of your answer book.
The **Paper Reference** is 7136/1.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Context 1

Total for this context: 40 marks

The UK farming sector

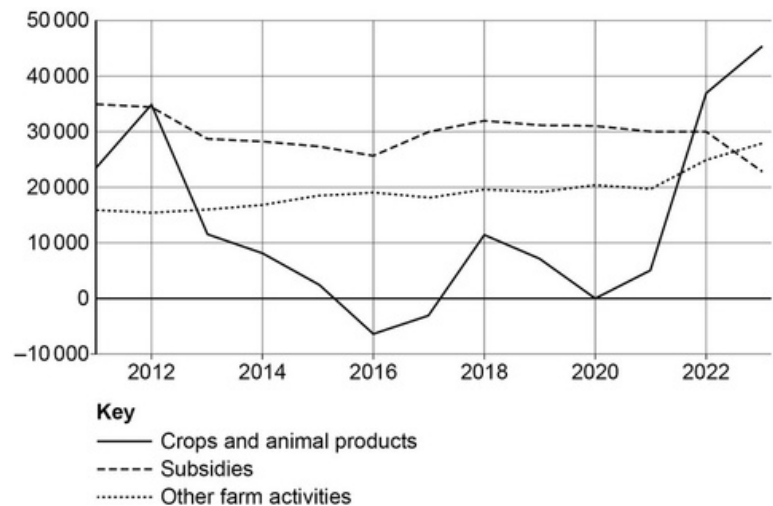
Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A:

Figure 1: UK real total farm income, 2011–2023, 2023 prices (£m)

Income type	2011	2023
Crops & animal products	28 988	31 219
Subsidies	4 773	2 953
Other farm activities	2 742	3 500
Total farm income	36 503	37 672

Figure 2: UK real average farm income, 2011–2023, 2023 prices (£)



Note: Other farm activities include income from tourism, retail and energy.

Note: Income from 'Crops and animal products' is after operating costs (including energy, fertiliser and animal feed) have been deducted.

Source: Department for Environment, Food & Rural Affairs (Defra), 2024

Extract B: Troubling times for UK farmers

Agriculture contributed £13.7bn to UK GDP in 2023, employing 462 000 people. It is an industry that is important not only for its contribution to GDP and employment, but also for its role in contributing to food security (producing 60% of food consumed in the UK) and caring for the UK's land and environment.

Farmers are faced with highly variable incomes. Much of the income from a farm is dependent on the weather, which is becoming more unpredictable and extreme due to climate change. The last 18 months have seen more rainfall in England than any time since 1836, leaving vast areas of land flooded and farmers struggling to harvest and plant new crops. This has led to a dramatic drop in the yield from some crops, including wheat and barley, which fell an estimated 21% and 26% respectively compared with the 2023 harvest. Because farms take months to produce their food, production decisions are not closely linked to prices, leading to inelastic supply. Farmers have limited ability to pass on higher costs to supermarkets and food retailers, which have monopsonistic power and the option to import food from abroad when domestic prices rise.

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Before the UK left the European Union (EU), British farms received EU subsidies which mainly depended on the size of the farm. The UK Government is phasing out this system and replacing it with a more complicated set of subsidies that rewards farmers for improving the natural environment while maintaining overall food production. In practice, most farmers are facing a 50% cut to their subsidies. 15

Source: Newsreports, 2024

Extract C: Responses to the farming crisis

The National Farmers' Union points out that business confidence amongst farmers is at an all-time low, with 65% saying that their profits were declining. The Department for Environment, Food and Rural Affairs (Defra) revealed that all farm types, except those farming pigs and poultry, registered a drop in average income last year. Cereal farmers have seen their income fall by 73%, while the income of dairy farmers fell 68% compared to the year before. The combination of reduced subsidies, high energy and other costs, and poor harvests will drive many farms into bankruptcy. Some farmers are switching away from producing food towards rewilding (where fields are returned to natural landscapes) or planting biofuel crops for industrial and transport use. Such actions will impact on the UK's ability to feed itself. 5

Since 2019, 8000 farms have closed, more than 5% of the total. Some farmers have sold their land to larger farms that have capital to invest in technology to boost efficiency. Mergers and mechanisation may have serious implications for rural economies, which rely on farming as a source of employment. 10

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. More generous subsidies would enable farmers to experiment with nature-friendly farming methods, such as using fewer pesticides, without sacrificing their income. However, the UK Government has so far resisted such calls, referring to the tight fiscal position and the opportunity cost of spending more on the sector. 15

Source: Newsreports, 2024

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.

[2marks]

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. **[4marks]**

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. **[9marks]**

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.

[25marks]

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

The UK market for veterinary services

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

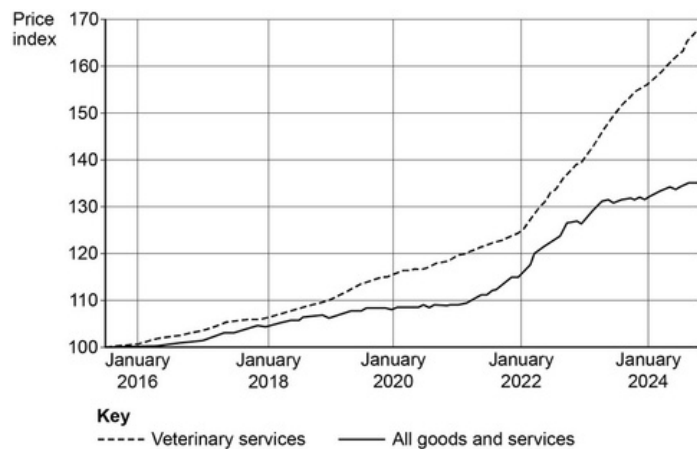
Extract D:

Figure 3: Number of veterinary practices by company, UK, 2023

Company	Number of practices
IVC Evidensia	1 074
Pets at Home	447
CVS	405
VetPartners	392
Medivet	383
Linnaeus	168
Other	2 051
Total	4 920

Source: Competition and Markets Authority, 2024

Figure 4: CPI price indices for 'Veterinary services' and 'All goods & services', 2015–2024 (July 2015=100)



Source: Office for National Statistics, 2024

Extract E: Increased concentration in the veterinary services market

Pet ownership in the UK has grown steadily over the past decade. The number of pet dogs increased from 8.9 million in 2018 to 11 million in 2023. The veterinary services market, which looks after the health of dogs and other pets, has grown to be worth £6.3 billion in 2023, up from £5.0 billion in 2021. Just a few decades ago, the sector consisted mainly of vet-owned independent practices. 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.

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A significant cost for a veterinary practice is the medicine used to treat pets. When negotiating prices with pharmaceutical firms, large companies with multiple practices have far greater bargaining power than an independent practice. They can cut costs by creating shared departments for marketing, information technology and staff training. Such companies have also boosted revenues by offering complementary services such as referral centres, laboratories and online pharmacies, allowing them to earn an increasing share of the UK's spending on pets.

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In 2023, the initial CMA review of the veterinary services market raised concerns about the affordability and transparency of veterinary services in the UK. Pet owners often choose their vets according to location, convenience or recommendations. They rarely switch between veterinary practices except when moving house. Many do not compare prices, particularly when the need for care is urgent. They usually rely on the vet's recommendation for treatment,

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and do not feel confident in asking their vet to offer alternative options or question the price. Over 80% of veterinary practices' websites do not publish their prices or who owns the practice. The majority of veterinary practice websites do not make it clear when the practice is owned by a large group. Therefore, the few consumers who seek alternative vets may not be aware that they are comparing prices offered by practices under the same ownership.

Source: News reports, 2024

Extract F: Regulatory options to improve the veterinary services market

In 2024, the CMA became concerned that the UK veterinary services market might not be working well for pet owners or vets. It launched a detailed investigation into the business practices of veterinary companies. One of its concerns was that the reduction in the number of small, independent practices may have forced up the price of treatments and drugs for the 16 million pet owners in the UK.

The CMA is worried that large companies may be acting in ways that reduce choice and that pet owners may not have enough information to pick the right treatment for their pets.

Its investigation will look at the following: whether consumers get the information they need to make informed decisions, whether there is sufficient choice of vets, whether the regulation of the market needs changing and the level of profits earned by veterinary companies.

The CMA's possible remedies include forcing firms to provide more information to consumers, imposing maximum prescription fees and ordering the sale or break-up of some businesses. The possibility of regulatory intervention following the investigation has scared some investors. One of the largest firms, CVS, saw its share price fall by more than 30% in the week after the CMA's announcement.

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Source: News reports, 2024

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]

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

[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]

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]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

A 2024 poll found that 55% of people agreed that chief executive pay should be limited so that the differences in pay between high and low earners do not grow too wide. Meanwhile, the head of the London Stock Exchange called for chief executives to be paid more to retain 'top talent'. Before tax, UK chief executives are paid on average 109 times the salary of the median worker in their firms.

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

[15marks]

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

[25marks]

OR**Essay 2**

A 2024 report compared healthcare spending and healthcare outcomes across 10 advanced economies. It found that the USA had the worst outcomes, whilst spending significantly more than other nations. The Netherlands had one of the best-performing healthcare systems for the lowest spending as a percentage of GDP. Both countries use a market-based approach to healthcare. Meanwhile, the UK's National Health Service performed close to the average.

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

[15marks]

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

[25marks]

OR

Essay 3

Before and during the Christmas period, social media and television feature images of extravagant gifts and celebrations. For Christmas 2024, UK consumers spent an average of £362 on gifts and another £317 on food and drink. Yet many consumers reported a feeling of regret from overconsumption, wastefulness and the environmental impact of their purchases.

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

[15marks]

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| 1 | 4 |
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- 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.

[25marks]

END OF QUESTIONS

There are no questions printed on this page

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