

A-level ECONOMICS

Paper 1 Markets and Market Failure

Monday 18 May 2020

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

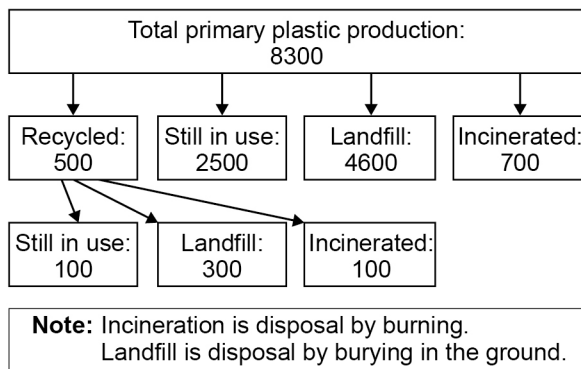
Total for this context: 40 marks

The circular economy

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

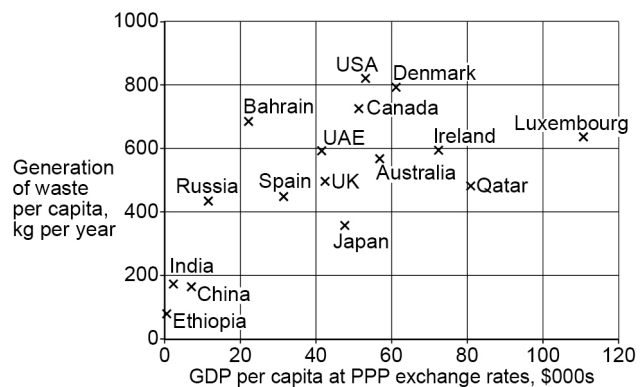
Extract A

Figure 1: Global plastic production and disposal, 1950–2015, million tonnes



Source: Data from ourworldindata.org, 2018

Figure 2: Generation of waste and GDP per capita, 2016, selected countries



Source: World Bank, 2018

Extract B: The global economy needs to become more circular

Of the 84 billion tonnes of materials produced each year by the global economy, barely 9% are reused. The United Nations (UN) suggests that better use of resources could add \$2 trillion to the global economy by 2050. 1

Environmental groups argue for a 'circular' economy, an economic system aimed at minimising waste, making the most of scarce resources and reusing precious raw materials. However, if products last longer, it may seriously damage demand in sectors such as fossil fuels, minerals and agriculture. Manufacturers' sales would fall, as would the need for shipping and other transport. Currently, many companies intentionally make it difficult to repair their products in order to increase sales. This is both economically inefficient and environmentally foolish; it imposes costs on the environment even though it may make sense for individual companies. 5 10

Would a circular economy result in workers losing their jobs? Manufacturing jobs are likely to come under pressure, but new jobs would be created. According to one study, waste disposal generates just 0.1 jobs per 1000 tonnes, compared with two jobs from recycling the same amount. The environment would benefit, with fewer mines, more trees and less need for landfill and incineration. Recycling aluminium saves 95% of energy compared with creating new metal. The comparable savings are 88% for plastic, 60% for steel and paper, and 38% for glass. 15

By 2035, all European Union (EU) states will be required by law to recycle 65% of their waste, compared to an average of 40% today. But populations grow. By 2050, the world will have 2 billion more consumers, increasing the pressure on the environment.

Source: News reports, 2018

Extract C: China bans imports of waste

While rich countries are cleaning up at home, they are exporting their 'disposable' lifestyle around the world, by sending their waste to developing countries. Many developing countries are now beginning to resist this. In 2018, a huge shock hit the global recycling industry. China, the world's biggest waste importer, stopped accepting recycled plastic and paper from abroad, and limited imports of cardboard. Previously, over 50% of such waste was transported to China each year. China plans to introduce bans on most other waste imports. 1 5

The Chinese ban removed the third part of the 'collect, sort, export' system on which developed economies rely. Alternatives are scarce. Incinerators and landfill will take some of the surplus waste, but the capacity of both is limited. Landfill is gradually being regulated out of existence in many places, including the EU. High labour costs make hiring enough human sorters to deal with waste volumes very expensive. 10

Automation could, in time, sort some of the surplus waste, but innovation has been slow. Although China has disrupted the whole global waste trade, many experts see some benefits in forcing rich countries to rethink. The ban has given a boost to some entrepreneurs. Online marketplaces for recycled plastics, metal and paper have grown rapidly. Recycled materials now flow to the highest bidder and hence to the highest-value use. However, such operations cannot compensate quickly for the Chinese ban. Many environmental economists suggest that making firms pay for the costs of landfill associated with their products, or taxing raw material inputs, will be necessary to ensure a sustainable future for all. 15

Source: The Economist, 2018

0 1 Using the data in **Extract A** (Figure 1) calculate the percentage of all plastics produced in the period 1950–2015 which have either been sent to landfill or incinerated. Give your answer to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A** (Figure 2) show that higher living standards lead to greater volumes of waste per capita being produced. [4 marks]

0 3 **Extract B** (lines 8–10) states: 'many companies intentionally make it difficult to repair their products in order to increase sales. This is both economically inefficient and environmentally foolish; it imposes costs on the environment even though it may make sense for individual companies.'

With the help of a diagram, explain how the production of goods which are designed not to last long may result in market failure.

[9 marks]

0 4 **Extract C** (lines 17–19) states: 'Many environmental economists suggest that making firms pay for the costs of landfill associated with their products, or taxing raw material inputs, will be necessary to ensure a sustainable future for all.'

Using the extracts and your knowledge of economics, evaluate policies, if any, that governments in developed countries should pursue to reduce waste and encourage the recycling of waste products.

[25 marks]

Turn over ►

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

OR

Context 2

Total for this context: 40 marks

The adult social care market

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

Extract D

Figure 3: Pay for care workers, compared with pay for workers in the whole economy, £s per hour, 2017

Percentile	Care worker	Whole economy
10 th	7.20	7.31
25 th	7.20	8.69
50 th	7.50	12.23
75 th	8.02	18.57
90 th	8.73	27.06

Source: National Audit Office, 2018

Figure 4: UK population by age (000s)

Age group	Year 2016	Year 2041 (forecast)
0–18	14 652	15 132
19–64	39 182	39 980
65–84	10 250	14 545
85–94	1 436	2 887
95+	128	360
Total	65 648	72 905

Source: ONS, 2018

Note: The figures may not sum to the total due to rounding

Extract E: Problems in the social care market

Social care in England involves the provision of personal care to adults with needs arising from illness, disability, old age or poverty. Social care is provided to people in their own homes or in care homes. Many people in need of care are on low incomes and cannot afford to pay for it themselves. High quality care provides private benefits and also external benefits, including lower burdens on the NHS and on working relatives. Until the 1990s, almost all workers in the care sector were employed by the government, which acted as a monopsonist by keeping wages low. Over the last 30 years the sector has been largely privatised, with 75% of England's 15 000 care homes now run for profit. Privatisation was intended to create more choice, improve efficiency and ensure high quality, whilst enabling a quicker response to changing demand. 10

Since privatisation, the sector has seen further downward pressure on wages. Social care providers, bidding competitively for contracts from local authorities starved of cash, have minimised labour costs. Privatisation does not seem to have improved the quality of care either. Some elderly clients are cared for, in their own homes, by unqualified staff in 15-minute slots, with budgets too small to provide nutritious meals or basic care. Despite the actions of the industry regulator, the Care Quality Commission, there have been many scandals involving care homes in recent years. As a result, some have argued that there are moral and economic arguments for social care to be brought back into public ownership. 15

Source: News reports, 2019

Extract F: Social care work is undervalued

There are aspects of market failure in the social care sector, though some argue that inappropriate government intervention and a lack of funding are the main reasons why the system is failing to deliver high quality care. This is a vitally important sector, yet care jobs have some of the economy's worst salaries and around a quarter of these workers are employed on zero-hour contracts. Consequently, the sector has high levels of staff turnover (28% per year) and vacancies (6.6% of all roles). At present, many care workers are recruited from overseas and so government immigration policy affects the sector. Some suggest that the skill level of care workers is relatively low and does not justify a higher wage while others have argued for high quality training programmes. Less than half of care workers hold a relevant qualification, and some parts of the workforce feel undervalued, are demotivated and have few opportunities for promotion.

Research from the Royal College of Nurses found that 38% of care homes were understaffed. Private social care companies have argued that the introduction of the National Living Wage, while raising average pay, has left them at risk of bankruptcy because of higher wage bills. More than 100 care firms went bust in 2018, worsening the under-provision of care. One day, the government will have to accept the need for more generous funding. However, public finances remain under pressure. Measures such as subsidies to private providers are likely to worsen the government's budget deficit but public support for an increase in taxation to fund social care is high.

Source: News reports, 2018

0 5 Using the data in **Extract D** (Figure 3), calculate how much the median care worker earns for every pound earned by the median worker in the whole economy. Give your answer **to the nearest penny**.

[2 marks]

0 6 Explain how the data in **Extract D** (Figure 4) show that there is likely to be substantial upward pressure on the wages of care workers by 2041.

[4 marks]

0 7 **Extract E** (lines 5–7) states: 'Until the 1990s, almost all workers in the care sector were employed by the government, which acted as a monopsonist by keeping wages low.'

With the help of a diagram, explain how a monopsonistic public sector can lead to low pay for social care work.

[9 marks]

0 8 **Extract F** (lines 1–3) states: 'There are aspects of market failure in the social care sector, though some argue that inappropriate government intervention and a lack of funding are the main reasons why the system is failing to deliver high quality care.'

Using the extracts and your knowledge of economics, assess policies that might be used to improve the provision of social care in the UK.

[25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

Critics of the world's five most valuable multinational technology firms (Google, Amazon, Apple, Facebook and Microsoft) argue that there ought to be greater government intervention to protect consumers' interests. Several European governments are considering imposing new taxes on the revenues of such firms, rather than their profits.

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 Explain how the imposition of a tax on a good or service affects both consumer surplus **and** producer surplus. **[15 marks]**
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 Discuss whether governments should consider increasing the regulation and taxation of technology firms which have acquired significant global monopoly power. **[25 marks]**

OR**Essay 2**

The economist Greg Mankiw has written that 'society faces a trade-off between efficiency and equity. Efficiency means that society is getting the maximum benefits from its scarce resources. Equity means that those benefits are distributed fairly among society's members. Often, when government policies are designed, these two goals conflict.'

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 Explain how a production possibility diagram can be used to illustrate some features of the fundamental economic problem. **[15 marks]**
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 Evaluate the view that government intervention to reduce inequality will lead to an improvement in economic welfare. **[25 marks]**

OR

Essay 3

In December 2018, the Competition and Markets Authority (CMA) announced a range of policies to prevent firms charging existing customers more than new customers. Firms supplying financial services, mobile phones and broadband are no longer allowed to discriminate against loyal customers renewing their contracts.

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 Explain why imperfect information can lead to market failure. **[15 marks]**

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 Assess the view that price discrimination is always damaging. **[25 marks]**

END OF QUESTIONS

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