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# A-LEVEL ECONOMICS

7135/1 The operation of markets and market failure  
Report on the Examination

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Specification 7135  
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## General Comments

The majority of students opted for Context 2 rather than Context 1 and although there were some pleasing answers to Context 1, on average, students performed better on Context 2 than Context 1. This may well be that the gambling context and related 25 mark essay was seen by students as an easier option. The overall level of responses suggests that students lack confidence with and struggle somewhat with market structure and monopoly/competition theory. This appeared to be the harder of the two options.

It is pleasing, however, to be able to report that many of the students entered for this second examination for this new AS level Economics specification performed very well. Good knowledge and understanding of economic terminology, concepts and principles was often demonstrated but analysis was not always as well developed, despite good use of the context material. Attempted application by some of the weaker students was often unconvincing, particularly in respect of market structures within the supermarket industry but also, to a lesser extent, with regard to the market failure of gambling. Students would benefit from being provided with as many opportunities as possible to apply their understanding of economics to a wide variety of real world situations. This could be through discussion as well as by way of written responses to questions set by the teacher.

Some key concepts were not fully understood. For example, the term ‘real income’ was often used incorrectly or its use was suspect; weaker students also confused maximum ‘bets’ with maximum ‘prices’. Other economic concepts were not used with sufficient precision and accuracy, some of which are indicated below. To communicate clearly and to avoid mistakes that lead to invalid conclusions, it is important that students acquire a firm grasp of basic economic principles.

Many students made good use of diagrams in their answers. However, some of these diagrams were inaccurate or not labelled correctly; students should be aware that credit is unlikely to be given for a poor diagram. Where appropriate, the use of suitable, fully-labelled diagrams should be encouraged. However, they should only include a diagram when it is relevant to the question and adds value to the response.

At least 15 per cent of the marks at AS level depend on a student’s ability to demonstrate quantitative skills. When asked to perform a calculation, students would be well advised to show their working as part-marks may be awarded for the correct method even if the final answer is incorrect.

Selective use of the extracts should also be encouraged. The extracts are there to help the student respond to the questions and can be used to help support judgements. When answering the last part of each context, the quality of the evaluation is a key determinant of the mark awarded. Good quality evaluation requires that judgements are supported by sound analysis and/or evidence. The evidence used to support judgements may be qualitative or quantitative. Some evidence is included in the extracts but it must be used appropriately. Combining evidence from different extracts is one way of strengthening the quality of evaluation.

Sound, fully developed analysis should be an essential element of students’ responses to the last two parts of each context question. In the last part, good analysis is the foundation for good evaluation; they go together. Some of the weaker answers to the last part of Context 2, used the extracts extensively but were weak because the underlying economic analysis was missing.

Good students evaluated as they worked their way through their answers to the last part of the context questions but only the very best students provided a convincing, well-developed, supported conclusion. It is a difficult skill that students need to practise. The teacher could provide their students with a good answer to a question which has had the conclusion removed. Students could then be asked to write their own conclusion to help them develop the skill of producing a supported final judgement.

## **Context 1: Supermarkets**

### **Question 21**

Many students were able to provide an accurate definition of internal economies of scale, recognising the two elements that average costs fall and the firm is increasing in size. However, the majority provided a definition that showed some understanding but was either incomplete or inaccurate in some respect; for example, by failing to recognise that the 'internal' component related to a single firm or by not mentioning the 'average' cost element. Good students recognised that economies of scale refers to falling 'long run' average costs.

### **Question 22**

Given the increased emphasis on quantitative skills, it was disappointing that a sizeable minority of students were not able to achieve full marks on this question. Many students still missed the correct unit of measurement but full marks could still be achieved if they expressed their answer as either a decimal or stated it as a ratio. Some students clearly misread the question and calculated a 'four' firm concentration ratio. A valid attempt at a calculation with an incorrect answer was awarded 1 mark.

### **Question 23**

The important principle for this question is that students need to identify and clearly state a significant comparison which must be supported by accurate use of the data. Quoting the data without clearly stating the significant comparison will not gain any marks. Most students were unable to identify two significant points of comparison and support their comparisons by accurate use of the data, with the majority of students achieving only 2 marks or less for this question. It would appear that many students have not been taught the basic techniques for answering this question. As in previous years for this type of question, marks were lost due to the failure to use the correct units and/or dates. When students are required to read the figures from a chart or graph, a reasonable tolerance is allowed but some of the figures quoted were inaccurate. Another error included not recognising that the horizontal axis showed periods of 12 months across 2 years (2002-2003, 2003-2004 etc.) rather than simply one specific calendar year.

### **Question 24**

Many students scored full marks on this question with the vast majority of students scoring either 3 or 4 marks. Although tolerance was factored into the mark scheme, poorly drawn pie charts made marking this question quite challenging. Many students also failed to label the chart as directed by the question – often, 'The rest' was shown with 'Aldi' and 'Lidl' shown in addition and separately. Another common misunderstanding was the use of Aldi's and Lidl's 'market share' or 'sales growth'.

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**Question 25**

This question is marked using a level of response mark scheme that assesses knowledge and understanding, application and analysis. When awarding the mark, a judgement is made regarding the overall quality of the response.

Stronger students generally started their answers by outlining the key characteristics of a monopoly. They then identified two factors and explained how and why they could influence monopoly power in the supermarket industry, often drawing on information provided in the extracts; for example, the statement that ‘increased competition from Aldi and Lidl has weakened the monopoly of well-established firms’. Good answers to this question focused on factors that will lead to or reduce barriers to entry. This may have involved using prompts in the data to explain how Lidl and Aldi had used economies of scale to enable them to charge lower prices and take market share and market power away from the big four supermarkets. Many students seemed to view Lidl and Aldi (incorrectly) as small firms. Too many responses simply described changes in factors affecting demand and/or supply in general (e.g. the availability of substitutes) and that this would reduce the market share of the big four supermarkets and thus monopoly power, without looking at a change in the structure of the market. A large number of students also went off at a tangent describing and then analysing market power. Some good answers made light work of the question by explaining how existing firms were able to maintain market power through barriers to entry.

**Question 26**

Whilst many students attempted to explain whether changes in the supermarket industry affect consumers as well as firms, some did not do so. Given the nature of the question, this was a significant weakness. A response that only considered only the impact on consumers could not provide an effective overall assessment of the pros and cons of the changes in the supermarket industry.

This question was less well answered than question B32. Many students failed to make good use of the data and overall there was a lack of knowledge amongst students as to the potential impacts of increases in competition beyond price and profit changes; many answers lacked depth of analysis. Better students took the opportunity to develop the prompt about unhealthy food as a demerit good and went down the route of introducing inequality and inequity issues. They also evaluated the positive financial impact of lower prices with the negative impact on consumer’s health of ‘less healthy products’.

Many students confused the point about land purchase by the big supermarket chains, whilst better students were more able to use this application correctly to point out that although they had been buying up land in the past, more recently they were buying up less land. Weak students tended to overuse the point about migrant workers by lifting from the text without developing the analysis further using economic principles. Strong students not only discussed the impact on all consumers but also on different types of consumer. The statement ‘offering low-priced goods they have been able to attract customers from a variety of social backgrounds’ would have been an appropriate prompt.

The extracts were used well by some students but could have been used better by many more. For example, references to ‘misleading customers with their price deals’ might have been used to support discussion relating to the possibility of asymmetry of information and unintended consequences.

Relatively few students picked up the significance in market shares and the time period over which they've occurred. Better students also introduced the issue of what if the government were to intervene.

The best answers included a well-developed conclusion that considered whether or not the changes to the supermarket, now, and in the future, would be worse or better for all consumers and all firms.

## **Context 2: Gambling**

### **Question 27**

Many students were able to provide an accurate definition of 'external costs', recognising the two elements the harmful/negative third-party effects of an economic activity. However, the majority provided a definition that showed some understanding but was either incomplete or inaccurate in some respect; for example, by failing to recognise economic activity or the negative/cost on third parties. Good students recognised quickly that external costs have a harmful or negative consequence. Rather too many students incorrectly view external costs as a private cost that originates outside of the firm

### **Question 28**

The majority of students were able to calculate the percentage change in the number of workers in the gambling sector. However, some made silly mistakes by, for example, omitting the correct unit (expressed as a percentage), or by not showing that the change was negative or by not stating the answer to one decimal place. It is still somewhat surprising that many AS Level students still cannot calculate a percentage change. Students who made a valid attempt at the calculation were awarded just 1 mark.

### **Question 29**

The majority of students were awarded full marks for their answers to this question. However, as with question B23, some students quoted a significant feature of each data series rather than make a significant comparison. Whilst it was pleasing that most students quoted the units correctly, some didn't, many did not quote the figure as being in millions (m). The units must be quoted for each comparison. A common error included not recognising that the data showed periods of 12 months across 2 years (2008-2009, 2009-2010 etc.) rather than simply one specific calendar year. Some students ignored the request for changes in Bingo and National Lottery and included Casinos.

### **Question 30**

Many students scored full marks on this question with a large majority of students scoring either 3 or 4 marks. It was notable how many students used unhelpful scales when drawing graphs, making it more likely that they would make an error and be out of tolerance. Common errors included a failure to use the correct units on the vertical axis (£ million). Many marks were also lost by failing to incorporate a discontinuity into the graph.

### **Question 31**

It is worth re-emphasising that this question and the equivalent question 25 are assessed using a level of response mark scheme; marks are not awarded for each point that is made. It is the overall quality of the response, that determines the mark awarded.

A fair proportion of the students provided a competent response to this question, achieving Level 3. These students frequently used a demand and supply curve diagram to illustrate the effect of an increase in advertising or technology, for example. The diagrams were usually backed up by sound analysis, stating that a rise in advertising could impact on consumer demand whereas an increase in technology could impact on the industry's supply. Good students also made use of the extracts; for example, by referring to 'more online casinos, faster internet speeds and more people using their phones to gamble' mentioned in Extract E. The very best answers combined extract material with sophisticated and robust economic analysis. Students using imperfect information or recession often found it difficult to expand their points in order to reach level 3.

It was not necessary to include a diagram to achieve full marks for this question but students should appreciate that, where appropriate, the use of a diagram can be useful in supporting their analysis. Diagrams are an important part of an economist's toolkit and it is up to the student to decide when and how they might be usefully employed.

Many students mistook the concept of overconsumption with that of an increase in consumption (demand). This led to answers about information failure and lack of knowledge of the odds of winning that did not explain why gambling had increased. Better answers focused on increased technology allowing greater ease/convenience of access, greater use of advertising on many social platforms and the ability of more products/firms to enter the market through technological advances. A large number of students identified gambling as an inferior good where consumption increased during the recession while others went against the data and suggested that rising incomes since had led to an increase in demand for gambling, thus identifying it as a normal good.

### **Question 32**

There were some very accomplished and thoughtful responses to this question. The best answers started by explaining the general case for government intervention in relation to the gambling industry. This was often supported by a relevant diagram and quotes from the extracts identifying some of the negative externalities generated by gambling. The question asked students to assess whether the UK government should intervene more in the gambling industry but the majority of answers did not pick up on the argument for 'more' government intervention and treated the market before intervention as a free market with no current government involvement. Many answers were thus very policy focused rather than focusing on arguments for/against more government intervention. A particular difficulty arose with this question in that betting is unusual as not having specific prices. Many students, perhaps prompted by the idea in the data of introducing a maximum bet, took this to mean a maximum price. This led to analysis that was inaccurate in many respects. It is, however, hard to expect all students to pick up this difference. Good students proceeded to assess the relative merits of the different policies that could be employed to reduce gambling in the context of more intervention; perhaps contrasting this with the benefits of a free market approach. Answers analysing and evaluating taxes, correcting information failures and regulations (such as increasing minimum ages) often fared well.

However, some weaker answers focused on the case for, and occasionally against, government intervention rather than whether the UK government should intervene more. Some students also struggled because they mistakenly believed that all forms of government intervention are regulation. This meant that they found it impossible to compare regulation with other forms of intervention. Section 3.1.5.8 of the AS specification makes a clear distinction between various types of government intervention and students should understand the difference between them.

It was very encouraging to see that the majority of students made good use of the extracts to enhance their responses and in some cases, to provide support for judgements made.

Answers often included some supported evaluation throughout the response but many of the conclusions were too brief or merely repeated a few earlier points. A well-argued conclusion with a supported final judgement was required to achieve a mark towards the top of Level 5. The judgement might reasonably have concluded, that to be effective, the issue of more or less intervention might be considered, but whatever the judgement it should be supported by sound analysis and evidence.

### **Use of statistics**

Statistics used in this report may be taken from incomplete processing data. However, this data still gives a true account on how students have performed for each question.

### **Mark Ranges and Award of Grades**

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.