

A-level ECONOMICS

Paper 1 Markets and Market Failure

Wednesday 15 May 2024

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 market for university accommodation

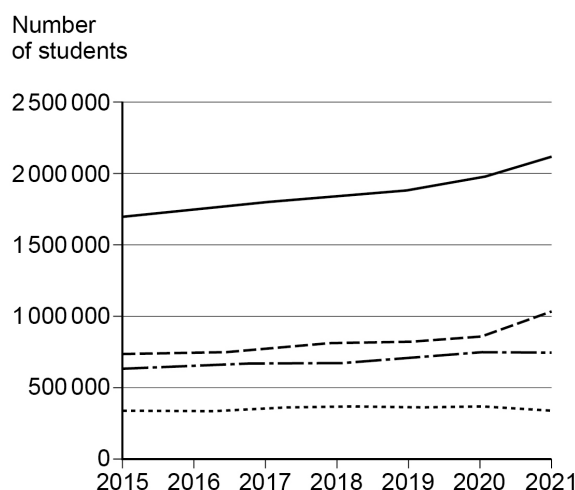
Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A

Table 1: Average weekly university rent, selected UK cities, 2015 and 2021

Selected UK cities	Average weekly university rent, 2015	Average weekly university rent, 2021
Birmingham	£113.88	£157.94
Brighton	£143.00	£235.93
Bristol	£141.58	£184.38
Liverpool	£112.97	£136.61
Manchester	£120.87	£180.60
UK average	£121.16	£169.35

Figure 1: Number of full-time students at UK universities, and type of accommodation, 2015 to 2021



Key

- Total number of full-time students
- Living at home
- .- Private rental
- University rental

Source: Cushman Wakefield Student Accommodation Report, 2022

Extract B: A serious shortage of student accommodation

The number of 18-year-olds in the UK applying to university is rising. In addition, there was a record number of 277 000 foreign students in 2022.

Universities have expanded the number of places on offer to students, but the supply of student accommodation is highly inelastic. Providers of rental accommodation have been deterred by stricter rules on shared houses, higher taxes and greater rights for renters. Rising construction costs, interest rates and inflation have resulted in an insufficient number of new developments in many university cities. Supply shortages have been particularly acute in some cities, and certain universities have asked students to live at home.

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Shortages of accommodation could mean that some students are discouraged from applying to university. The average private sector rent outside London consumes almost three-quarters of the maximum student loan, and most students are ineligible for this maximum. Some of the top universities may become out of reach to poorer students who do not live locally.

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Source: News reports, 2023

Extract C: Policies to solve the shortage of student accommodation

The causes of the shortage of student accommodation are varied and some, but not all, result from market failure. Rising rents ought to incentivise more supply, but that has not worked recently. Planning restrictions have limited the number of new building projects. Relaxing such rules might help, but local residents complain that high numbers of students can alter the nature of their communities. Subsidies to the builders of student accommodation could increase supply, but with a likely delay of many years.

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Some students have been offered financial incentives to defer their entry by a year or to live at home. To reduce further the demand for student accommodation, some people have urged the government to restrict foreign student numbers. However, the 22% of students who are foreign pay 44% of all tuition fees and so subsidise costs for UK students.

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Policies to tackle high rents could include rent subsidies from the government or an increase in the grants and loans available to students. In Scotland, university students have benefited from controls which limit rent increases to a fixed percentage each year. The National Union of Students is calling for nationwide rent controls. A maximum rent can help keep the cost of student accommodation lower than it would otherwise be, but risks some landlords withdrawing from the market. Some argue that high-quality student accommodation is a merit good and ought to be provided by the government at a fair rent.

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Source: News reports, 2023

0 1 Inflation resulted in a basket of goods and services that cost £100 in 2015 costing £112 in 2021. Using this information and the data in **Extract A (Table 1)**, calculate the percentage increase in average university rent, in real terms, between 2015 and 2021.

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

[2 marks]

0 2 Explain how the data in **Extract A (Figure 1 and Table 1)** show that the supply of university and private rental accommodation has failed to match the increase in student numbers between 2015 and 2021.

[4 marks]

0 3 **Extract B** (lines 3–4) states that ‘Universities have expanded the number of places on offer to students, but the supply of student accommodation is highly inelastic’.

With the help of a diagram, explain the impact of the increase in the number of students attending university on the market for student accommodation.

[9 marks]

0 4 **Extract C** (lines 14–16) states that ‘A maximum rent can help keep the cost of student accommodation lower than it would otherwise be, but risks some landlords withdrawing from the market’.

Using the data in the extracts and your knowledge of economics, discuss the advantages and disadvantages of policies the government might introduce to improve the market for student accommodation.

[25 marks]**Turn over ►**

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

OR

Context 2

Total for this context: 40 marks

Trade union membership and industrial disputes

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

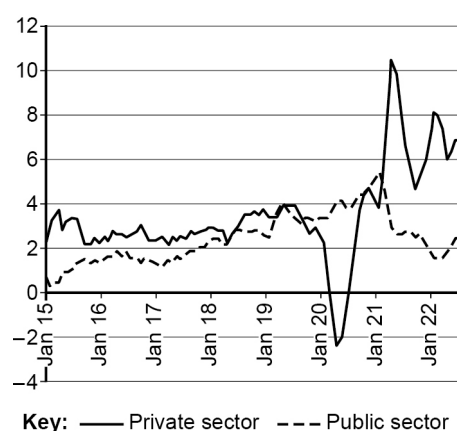
Extract D

Table 2: Trade union membership, % of workforce, 2001 to 2021

Year	All employees	Private sector	Public sector
2001	29.3	18.4	59.7
2006	28.3	16.6	58.7
2011	26.0	14.2	56.6
2016	23.5	13.4	52.8
2021	23.1	12.8	50.1

Source: Department for Business, Energy and Industrial Strategy, 2022

Figure 2: Growth in average annual nominal earnings, %, January 2015 to September 2022



Source: Office for National Statistics, 2023

Extract E: UK public sector workers hit hardest by cost of living crisis

In November 2022, members of nursing trade unions voted to strike. Many more public sector unions have joined the nurses on strike, in attempts to gain pay rises that keep up with inflation. It is notable that many of the employers facing strike action, such as the NHS, are monopsonistic employers, who have considerable labour market power.

UK public sector workers have been particularly hard hit by the cost of living crisis, according to official figures that show the gap between public and private sector pay growth is at its widest on record. Annual growth in pay was 6.6% in the private sector in September 2022, compared with just 2.2% for the public sector. Overall, pay growth accelerated to 5.7% as employers struggled to hire workers due to low unemployment. In November 2022, 13.3% of businesses reported experiencing a shortage of workers leading to upward pressure on wages. The construction and hospitality sectors were worst affected.

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However, wage growth has not kept pace with inflation, which reached 10.1% in September 2022, leading to growing industrial unrest. Until recently, strikes largely affected local authorities, transport services and some private sector employers. But the latest figures show the pay squeeze has been far worse for teachers, NHS staff and other public sector workers who have started to take industrial action, including strikes. Louise Murphy, economist at the Resolution Foundation, said there was now a “huge wedge” between private and public sector pay, creating severe difficulties for public sector recruitment and retention. Staff shortages in the public sector are likely to worsen unless public sector pay and working conditions improve.

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Source: News reports, 2023

Extract F: The role of trade unions

Over the past century, British unions have successfully campaigned for a minimum wage, holiday and sickness pay, equal opportunity rights, maternity and paternity rights and a two-day weekend for workers. Unions support individual workers in workplace disagreements, and engage in collective bargaining on behalf of their members by negotiating with employers on pay and working conditions. But unions can do much more for employees and even for employers. Research shows that their benefits can include reducing staff turnover, providing or promoting training and encouraging innovation.

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UK trade union membership peaked at 13.2 million members in 1979 but fell consistently during the 1980s and 1990s. There has been a recent reversal of this trend with membership increasing in each of the last four years, primarily amongst public sector workers. Unions suggest that new members have been joining due to wages falling in real terms, and the hope that a trade union might protect their interests. Collective pay bargaining, reinforced by the threat of strikes, has achieved some notable successes for workers, such as the 18% pay rise for London bus drivers in February 2023. However, 205 000 working days were lost to strike action in September 2022, almost as many as in the whole of 2019. Critics argue that strikes by transport workers, teachers, nurses and others create enormous disruption for everybody else and make labour markets less efficient.

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Source: News reports, 2023

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Using the data in **Extract D (Table 2)**, calculate the difference between the mean percentage trade union membership in the private sector and the mean percentage trade union membership in the public sector over the period 2001–2021.

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

[2 marks]

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Explain how the data in **Extract D (Figure 2)**, show that, since 2015, living standards of people working in the private sector are likely to have increased compared to those working in the public sector.

[4 marks]

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Extract E (lines 9–10) states that ‘In November 2022, 13.3% of businesses reported experiencing a shortage of workers leading to upward pressure on wages’.

With the help of a diagram, explain how **and** to what extent a shortage of labour is likely to affect the wage in a competitive labour market.

[9 marks]

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Extract F (lines 12–13) states that ‘Collective pay bargaining, reinforced by the threat of strikes, has achieved some notable successes for workers’.

Using the data in the extracts and your knowledge of economics, evaluate the view that trade unions improve the operation of labour markets by protecting the interests of workers.

[25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

In the UK, 64% of the population are considered to be overweight. Many policies have focused on promoting active lifestyles, whilst taxes have been introduced on sugary drinks and alcohol. There has also been regulation of advertising aimed at young children. Attention has recently turned to the use of behavioural economics techniques to change diets.

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Explain why imperfect and asymmetric information may lead to market failure in the market for food.

[15 marks]

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Evaluate the view that the consumption of unhealthy foods can best be reduced through the use of nudges and other techniques from behavioural economics.

[25 marks]

OR**Essay 2**

In 2018, the Competition and Markets Authority issued a report which criticised a 'situation where businesses charge higher prices to existing customers who stay with them, than they do to new customers'. However, according to Citizens Advice, some broadband and mobile phone companies continue to charge existing customers more than they charge new customers.

1	1
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Explain the likely impact on consumer surplus and producer surplus as an industry moves away from a competitive market structure to one that is dominated by a few large firms.

[15 marks]

1	2
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Evaluate the view that price discrimination is damaging for consumers.

[25 marks]

OR

Essay 3

Britain's energy market was plunged into chaos in 2021 as surges in wholesale electricity and gas prices exposed the weaknesses of many companies. Since deregulation in 2016, 49 energy supply companies have collapsed, with customers taken on by larger firms. This market chaos has led to renewed calls for the government to nationalise the energy industry.

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Explain, using examples, how the existence of economies and diseconomies of scale affect firms' average costs of production.

[15 marks]

1	4
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Assess the view that privatised industries, such as electricity and gas, should be taken back into public ownership.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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