CIE 3M8: The Individual and the Economy
Y11 Higher Level IB Economics
Griem

Unit 2b: Government Intervention and Market Failure
Data Response Test Outline

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Y11 Higher Level IB Economics
Griem/Chan

Overview, Date, and Format

This assessment will be in the form of a 50 minute test (5 minute reading), which will occur on March 30, 2022.

The test will be in a Paper 2: Data Response format.

Information on how to write this test is included at the end of this document.

Content

The test will focus on the learning goals and content from the following chapters in the Course Companion:

      8.Government Intervention in Markets
      9.Market Failure

Content from prior chapters is considered foundational. While you may not be explicitly asked questions from these previous chapters, you are expected to know the content.

How to write Paper 2 (Data Response Question Set)

Paper 2 questions are out of 20 marks.

Your test question will have an excerpt of data or text that you will read, and then four (4) questions that you must answer.

Part (a): Knowledge Questions

In parts (a) (i) and (ii), you will be asked to either provide definitions of economic terms found in the text or show your knowledge by identifying or listing a concept related to the text.

When providing definitions, you should be accurate/precise. One or two sentences are all that are required.

Completing this question should take no more than 5 minutes.

Part (b) and (c): Application of Theory

In part (b) and (c) of data response questions, you should draw a diagram, explain the diagram and answer the question. One well-drawn diagram and one paragraph of precise explanation is usually all that is required.

It should take no more than 15 minutes to complete part (b) and (c).

Part (d): Evaluation

In this question, you should write a short essay that demonstrates evaluation.

Evaluation can be achieved by providing a judgement or thesis that is supported by an analysis using the CLASPP framework. Also, refer to the Economic Application, Analysis, Evaluation and Synthesis Guide.

You must refer to the data or text in your answer. Often a diagram is required in this answer. You may reference diagrams from b and c. Using quotes is an effective way to do this.

This section should take approximately 25-30 minutes.

Sample Paper 2 Question Set

See next page for a sample question set.

Data response exercise

Read the text below and answer the questions that follow.

Cigarette tax hike would benefit Tennessee residents

Though southern states like Tennessee traditionally suffer from the highest incidence of youth and adult smoking in the nation, the indirect taxes the state and its neighbours impose on cigarettes are among the lowest.

It is felt that increasing Tennessee's **indirect tax** on cigarettes would help immensely in the fight to keep teenagers from beginning the habit. That's one of the advantageous aims of identical pieces of legislation in the House and Senate that propose to increase state taxes on cigarettes in this session, while decreasing the tax on groceries by the same amount.

While a tax increase of any kind tends to be highly unpopular, this proposal deserves serious consideration.

It has been calculated that the state has the country's highest average food tax at 8.4%, but one of the lowest cigarette taxes. The **specific tax** is set at 20 cents per pack, or one cent a cigarette. The national average for cigarette taxes is 91 cents per pack.

The legislation seeks to decrease the state sales tax rate on food, while increasing the tax on cigarettes to 3.25 cents per cigarette on 1 July 2006, with further increases each year of .15 cents or the amount needed to balance the loss in revenue created by the decrease in the sales tax on food.

The increase in the per-pack tax on cigarettes proposed in this legislation is admittedly a huge increase. But the decrease in sales tax on grocery items would obviously benefit the majority of Tennesseans. And no one seriously disputes the disastrous health consequences of cigarette smoking. The evidence is all around us.

In Tennessee, studies show 14,500 youths become regular smokers every year. Yet, according to recent data from the Department of Health and Human Services, Tennessee only spends about $1.5 million on smoking prevention and treatment programs annually. That's the lowest amount budgeted among all states except for Pennsylvania. Tennessee has one of the highest percentages of smokers in the nation. That obviously needs to change.

This is legislation that will reduce the effective price of food, save lives and decrease the long-term health care costs associated with tobacco use. This sounds like a winning proposition for everyone.

Source: *Kingsport Times-News* Monday, 20 March 2006

1 Define the following terms highlighted in the text:

  a indirect tax [2 marks]

  b specific tax [2 marks]

2 If we assume that the demand for cigarettes is inelastic, draw a diagram to show how the proposed change in the tax on cigarettes will affect the market for cigarettes in Tennessee. [4 marks]

3 If we assume that the demand for food is elastic, draw a diagram to show how the proposed change in the tax on food will affect the food market. [4 marks]

4 Evaluate the effects of the changes to the taxes on food and cigarettes. [8 marks]

Paper 2 Rubrics

Paper 2 Rubric

The paper is out of 20 and banded

Part (a): (i) and (ii)

Level	Level Descriptor	Marks 0-2
0	The work does not reach a standard described by the descriptors below	0
1	There is limited understanding or vague definition	1
2	There is clear understanding or accurate definition.	2

Part (b) and part (c)

Level	Level Descriptor	Marks 0-4
0	The work does not reach a standard described by the descriptors below	0
1	The written response is limited.	1-2
2	The written response is accurate.	3-4

OR

Level	Level Descriptor	Marks 0-4
0	The work does not reach a standard described by the descriptors below	0
1	There is a correct diagram or an accurate response	1-2
2	There is a correct diagram and an accurate response	3-4

Part (d)

Level	Level Descriptor	Marks 0-8
0	The work does not reach a standard described by the descriptors below	0
1	Few relevant concepts are recognized. There is basic knowledge/understanding.	1-2
2	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is some attempt at application/analysis.	3-5
3	Relevant concepts are recognized and developed in reasonable depth. There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence	6-8

Unit 2b: Government Intervention and Market Failure
Review Package

What is an externality? Use the concept of allocative efficiency to explain how externalities relate to market failure.

Draw a negative production externality and explain how it leads to a market failure.

Using diagrams, show how a negative consumption externality can be corrected by use of:

    a. Command and control (laws/regulations)
    b. Taxes

Identify some examples of negative consumption externalities.

Draw a negative consumption externality and explain how it leads to a market failure.

Why do economists prefer market-based methods that internalize negative production externalities to command and control methods (like laws/regulations)? What are some difficulties governments face in designing market-based measures?

Identify some examples of negative consumption externalities.

Using diagrams, show how a negative consumption externality can be corrected by use of:

    c. Command and control (laws/regulations)
    d. Advertising and persuasion
    e. Indirect taxes

What are the advantages and disadvantages of each of the above?

Explain the meaning of a demerit good, and provide examples. How can overprovision of a demerit good be corrected?

How does a negative consumption externality differ from a negative production externality?

What kinds of measures do economists prefer to correct negative consumption externalities? Why might these not be very effective?

Draw a positive production externality and explain how it leads to a market failure.

Draw a positive consumption externality and explain how it leads to a market failure.

Explain the meaning of a merit good, and provide examples. How can the underprovision of merit goods be corrected?

What policy options are available to governments wishing to correct a positive consumption externality?

Discuss advantages and disadvantages of the policy measures that governments can use to correct positive externalities of production and consumption.

Provide some examples of public goods, and explain how they relate to the concepts of rivalry and excludability.

How do governments respond to the lack of public goods? What are the pros and cons of this?

Define common pool resources using the concepts of rivalry and excludability.

How are common pool resources related to market failure?

What is meant by the term "sustainability?"

In discussions of open-access resources, there is an emphasis on their overuse rather than their use. Why? Explain why cutting down a small amount of forest over an extended period of time may be consistent with sustainability.

Using diagrams, show what kinds of market failures are particularly relevant to analyzing environmental problems.

Explain some advantages and disadvantages of each of the following policy measures to deal with the threats to sustainability:

  a. Command and control
  b. Carbon Taxes
  c. Cap and trade schemes

What are some key issues surrounding the debate between carbon taxes versus cap and trade schemes?

Using examples, explain under what circumstances international cooperation among governments is essential for the preservation of the environment?