



Economics Questions By Topic:

Consumer & Producer Surplus (1.2.8) Mark Scheme

A-Level Edexcel Theme 1

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SECTION A

Question Number	Answer	Mark
1	<p>Correct option B (1 mark)</p> <ul style="list-style-type: none"> • Definition of producer surplus (the difference between the price producers are willing to supply to the market and the actual market price, OR, the area between the supply curve and equilibrium price line). (1 mark) • Identification of original area of producer surplus on diagram or written as P_eXY (1 mark) • Annotation of the diagram to show an increase in the demand curve with a higher price (1 mark) and the increase in area of producer surplus or new level of producer surplus. (1 mark) <p>Rejection marks</p> <ul style="list-style-type: none"> • Options A and C incorrect since an increase in demand will cause an increase in price. (1 mark) <p>NB: do not double award if candidate has already gained a mark for showing an increase in price on the diagram.</p> <ul style="list-style-type: none"> • Option D incorrect as an increase in demand will cause an increase in consumer surplus (this must be shown on diagram) (1 mark) 	(4)

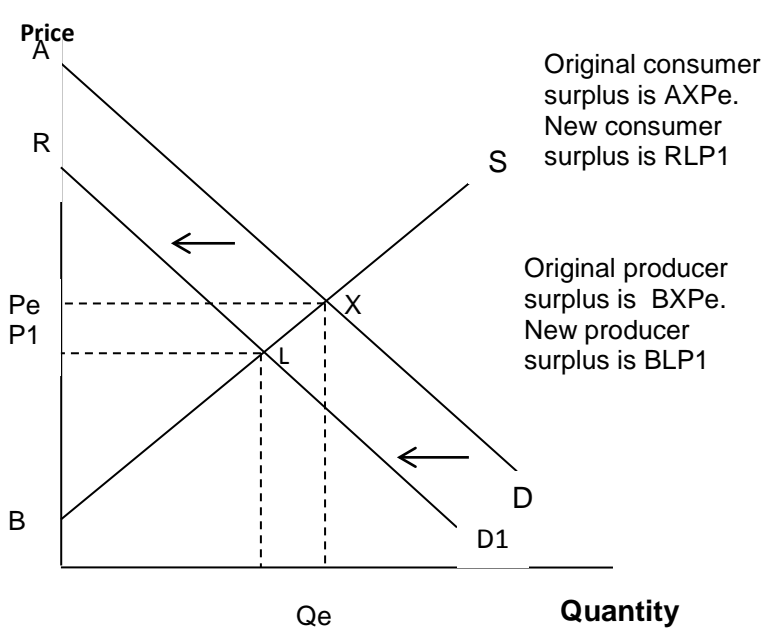
Question Number	Answer	Mark
2	<p style="text-align: center;">Answer C (1 mark)</p> <ul style="list-style-type: none"> • Definition of producer surplus (the difference between the price firms are willing to sell the good for and the market price it is sold at / the area above the supply curve and below the equilibrium price). (1 mark) • Original producer surplus is P1XK. (1 mark) • The loss of producer surplus is P1P2YX. (1 mark) • The original and loss of producer surplus may be shown by annotation of the diagram but they must be labelled correctly. NB: do not double award here. (1+1 marks) <p style="text-align: center;">Rejection marks</p> <ul style="list-style-type: none"> ➤ Option A incorrect as P2JY is the new consumer surplus area. (1 mark) ➤ Option B incorrect as LXP1 is the original area of consumer surplus. (1 mark) ➤ Option D incorrect as OP2YQ2 is the new area of total revenue or total expenditure. (1 mark) 	(4)

Question Number	Answer	Mark
3	<p>Answer D</p> <ul style="list-style-type: none"> • Definition of producer surplus (the difference between the price firms are willing to sell a good for and the actual market price or the area above the supply curve and below the price line) (1 mark) • Original producer surplus is P_1XZ (1 mark) • New producer surplus is P_2YZ (1 mark) <p>(the original and new producer surplus may be annotated on the diagram)</p> <ul style="list-style-type: none"> • P_1XL being consumer surplus (1 mark) <p>Rejection marks</p> <ul style="list-style-type: none"> ➤ Option A is incorrect since this is consumer surplus. (1 mark) ➤ Option B is incorrect since this is the original producer surplus. (1 mark) ➤ Option C is incorrect since this is the new level of producer surplus. (1 mark) <p>NB: Do not double award marks in this question.</p>	(4)

Question Number	Answer	Mark
4	<p>Answer B (1)</p> <ul style="list-style-type: none"> • Definition of consumer surplus (the difference between the price one is prepared to pay for a good and the actual price / market price paid) OR (the area above the equilibrium price and below the demand curve). (1) • Identification of original consumer surplus as £500 / further development using a numerical example(1) • Definition of VAT (a tax placed on the expenditure / a tax set as a percentage of the price of a good) or indirect tax (1) • Explanation that a reduction in VAT will reduce the price of cruise holidays and so lead to an increase in consumer surplus. (1) • Diagrammatic analysis depicting an outward shift in supply curve (either showing the original consumer surplus / the new level of consumer surplus / the change in consumer surplus) (1+1) (accept parallel shift in supply) <p>Rejection marks</p> <ul style="list-style-type: none"> ○ Option A is incorrect since an increase in wages to cruise holiday workers will increase production costs / possibly raise the price of cruise holidays - reducing consumer surplus. (1) ○ Option C is incorrect since an increase in price of cruise holidays to £3000 will eliminate Neringa's consumer surplus. (1) ○ Option D is incorrect since a decrease in the number of companies in the industry may shift the supply curve inwards and so raise the price of Caribbean cruise holidays (1). 	(4)

SECTION B

Question Number	Answer	Mark
7	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Knowledge</p> <p>2 marks for e.g.</p> <ul style="list-style-type: none">• Define producer surplus e.g. a measure of producer welfare or the difference between what producers are willing and able to supply a good for and the price they actually receive• Diagram to show the original demand and supply curve and equilibrium• Identify the original producer surplus <p>Analysis</p> <p>2 marks for e.g.</p> <ul style="list-style-type: none">• Diagram illustrates increased producer surplus (1) resulting from demand shifting out (1) <p>Application</p> <p>2 marks for e.g.</p> <ul style="list-style-type: none">• Explain that there is an increase in prices (1) as demand for houses rises (1)• Explain that there is an extension in supply or a rise in the housing availability• House builders will make a larger surplus (profit)• Producer surplus is likely to be only for new housing. With the existing housing stock, any increase in house prices would not be referred to as increasing producer surplus as the seller still has to find a home to live in.• Effect of PED/PES on size of producer surplus	(6)

Question Number	Answer	Mark
8	<p>6 KAA marks</p> <ul style="list-style-type: none"> • Consumer and producer surplus are likely to fall (need to mention that both have fallen) (1 mark) • Definition of consumer surplus (e.g. the difference between the price consumers are willing to pay for a good and the actual market price OR stating the area below the demand curve and above equilibrium price) (1 mark). • Definition of producer surplus (e.g. the difference between the price producers are willing to supply a good for and the actual market price OR stating the area above the supply curve and below the equilibrium price) (1 mark). • Diagram (up to 4 marks) <ul style="list-style-type: none"> i. Original areas of consumer and producer surplus (both must be identified) (1) ii. An inward shift in the demand curve for tobacco (1) iii. New consumer area identified / or the change in consumer surplus identified (1) iv. New producer surplus area identified / or the change in producer surplus identified (1)  <ul style="list-style-type: none"> • NB: Accept relevant diagram which depicts a decrease in the supply curve for tobacco and the original and new areas of consumer and producer surplus identified (up to 4 marks) <p>NB: cap at maximum of 3 marks if no suitable diagram offered</p>	(6)