



**Economics Questions By Topic:**

**Rational & Irrational Behaviour  
(1.2.1 & 1.2.10) Mark Scheme**

**A-Level Edexcel Theme 1**

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**SECTION B**

Question Number	Indicative content	Mark
<b>1</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <p><b>Information gaps as main cause of consumers failing to switch</b></p> <ul style="list-style-type: none"> <li>➤ Consumers lack market information on the price of their landline bill in relation to other providers</li> <li>➤ Main target audience (the elderly) lacks the knowledge to shop around online and use price comparison sites</li> <li>➤ Switch to online billing and direct debit payments means many households are unaware</li> <li>➤ Automatic price changes made by BT</li> <li>➤ Hard to compare prices as all bundles comprise of different services</li> <li>➤ Lack of awareness of competitor prices and packages</li> </ul> <p><b>Irrational behaviour as main cause of consumers failing to switch</b></p> <ul style="list-style-type: none"> <li>➤ Computation issues e.g. consumers do not understand their pricing structure</li> <li>➤ Habitual behaviour/status quo bias/brand loyalty e.g. consumers may have a tendency to purchase the same service over time</li> <li>➤ Consumers do not have the time to shop around or look for better deals</li> <li>➤ Consumers want to avoid the disruption of changing provider</li> <li>➤ Strong brand of BT leading to an inelastic demand</li> </ul> <p>Other factors could be causing this:</p> <ul style="list-style-type: none"> <li>➤ Misleading advertising or price plans</li> <li>➤ Lack of provision in all areas e.g. fibre optic or bundles</li> <li>➤ Tie in contracts &amp; automatic renewals</li> <li>➤ Information overload</li> <li>➤ Size of savings may not be significant enough to go through switching</li> <li>➤ Line quality may vary so not similar packages/non-price considerations make BT offer the best.</li> </ul> <p><b>NB For Level 3 response candidates need at least two reasons but are not required to use both 'information gaps' and 'irrational behaviour'.</b></p> <p><b>NB There may be overlap between information gaps and irrational behaviour as reasons.</b></p>	<b>(6)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
<b>1</b> continued	<b>Evaluation 4</b>	
	<ul style="list-style-type: none"> <li>• Counter arguments made to the reasons raised</li> <li>• Significance of the reasons provided</li> <li>• Consideration of whether it is rational to assume that consumers seek to maximise utility in allocating their expenditure</li> <li>• Long run information gaps may narrow and irrational behaviour may reduce e.g. improved price plan information &amp; actions of the regulator</li> </ul>	<b>(4)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.

Question Number	Answer	Mark
2	<p style="text-align: center;"><b>Knowledge 2, Application 2 Analysis 2</b></p> <p><b>Award up to 3 marks for each reason:</b></p> <p><b>Knowledge/understanding</b></p> <ul style="list-style-type: none"> <li>• Identification of two separate reasons: inertia, computational problems, information gap, all providers increasing prices over time. (1)</li> </ul> <p><b>Application</b></p> <p>1 mark for, e.g.</p> <ul style="list-style-type: none"> <li>• 'Irrational consumers pay the price'. (1)</li> <li>• Energy prices have risen by 158% in the last 15 years.(1)</li> <li>• Four million households are still on the most expensive energy rates. (1)</li> </ul> <p><b>Analysis</b></p> <p>Linked development of why not switching to a supplier offering lower prices (1)</p> <p><b>e.g.</b></p> <ul style="list-style-type: none"> <li>• Inertia (1) despite a decade of rising energy bills (1) as consumers do not have the time or motivation to switch (1).</li> </ul>	<b>(6)</b>

Question Number	Indicative content	Mark
3	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Identification of information gaps as a cause of market failure</li> </ul> <p><b>Information gaps as main cause of food waste e.g.</b></p> <ul style="list-style-type: none"> <li>• Food suppliers lack market information: e.g. predicting size of harvests – dependent on climate/ pest control and disease/ time lags in growing crops and raising livestock.</li> <li>• Supermarkets lack market information: e.g. predicting household demand – depends on tastes and fashion which may change/ population and migration changes/ impact of competitors.</li> <li>• Consumers lack market information: e.g. uncertainty over how to store food or whether food is fit for consumption after sell-by dates.</li> </ul> <p><b>Irrational behaviour as main cause of food waste e.g.</b></p> <ul style="list-style-type: none"> <li>• Computation issues e.g. consumers perceived demand may exceed actual demand for food / difficulty in comparing the different size of food products to fit with the actual amount of food required.</li> <li>• Habitual behaviour e.g. consumers may have a tendency to purchase more food than required/ better to have too much than too little food.</li> <li>• Influence of other people’s behaviour e.g. consumers may purchase food that they might not want.</li> <li>• Impulse buying e.g. due to advertising or use of special offers.</li> </ul> <p>NB These points could count as Evaluation and the Evaluation points as KAA.</p> <p>NB A Level 3 response would typically consider both ‘information gaps’ and ‘irrational behaviour’.</p> <p>NB There may be overlap between information gaps and irrational behaviour as possible causes of food waste.</p>	<b>(6)</b>

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Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
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Question Number	Indicative content	Mark
<b>3</b> continued	<p style="text-align: center;"><b>Evaluation 4</b></p> <ul style="list-style-type: none"> <li>• Consideration of relative proportions of food waste e.g. supermarkets appear favourable compared to food suppliers and households.</li> <li>• Other factors could cause food waste e.g. <ul style="list-style-type: none"> <li>➤ Misleading advertising by firms so consumers purchase food they do not want.</li> <li>➤ Transport and storage problems due to road congestion / problems of importing food from overseas.</li> </ul> </li> <li>• Consideration of whether it is rational to assume that consumers seek to maximise utility in allocating their expenditure / and firms seek to maximise profits in making production decisions.</li> <li>• Long run information gaps may narrow and irrational behaviour may reduce e.g. improved labelling and social enterprise, advice to customers on how to store food and use leftovers or use of new technology to extend freshness of food.</li> </ul> <p>NB These points could count as KAA and the KAA as evaluation.</p>	<b>(4)</b>

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	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation recognises different viewpoints and/or is critical of the evidence.



Question Number	Indicative content	Mark
<b>4</b>	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 2</b></p> <ul style="list-style-type: none"> <li>• Application – price of e-cigarettes per nicotine cheaper</li> <li>• Data on PED suggests some rational response to price change e.g. 10% rise causes 4% fall in demand (Extract A)</li> </ul> <p>Reasons rational</p> <ul style="list-style-type: none"> <li>• Smokers computationally aware of financial gains of switching</li> <li>• Smokers informed of private health gains (Extract B Paragraph 2)</li> <li>• Reducing health external costs e.g. passive smoking(Extract A L15)</li> <li>• Smokers aware that regulations will increasingly make it difficult for them to gain utility of nicotine consumption through tobacco smoking</li> </ul> <p><b>NB Reasons for/against being rational may be presented as either KAA or EV</b></p>	<b>(6)</b>

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	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
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Question Number	Indicative content	Mark
<b>4</b> continued	<b>Evaluation 4</b>	
	<p>Reasons against being rational</p> <ul style="list-style-type: none"> <li>• Smokers lack information and computational skills to accurately assess full costs and benefits of switching. May underestimate long-term gains of switching (bounded rationality)</li> <li>• Information overload</li> <li>• Both products contain nicotine which is addictive and habit forming.</li> <li>• If e-cigarettes were not available they may quit smoking altogether</li> <li>• Switch may be only short-term (impulse buying)</li> <li>• E-cigarettes complements tobacco smoking resulting in an overall increase in nicotine consumption</li> <li>• PED for tobacco remains lower than e-cigarettes so a price rise in the latter may result in a switch back</li> <li>• Peer pressure (herd mentality) pushing smokers to make the switch</li> </ul>	<b>(4)</b>

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.