AQA

A-level
Economics
Paper 1 Markets and Market Failure

Monday 12 May 2025 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 international rice market

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

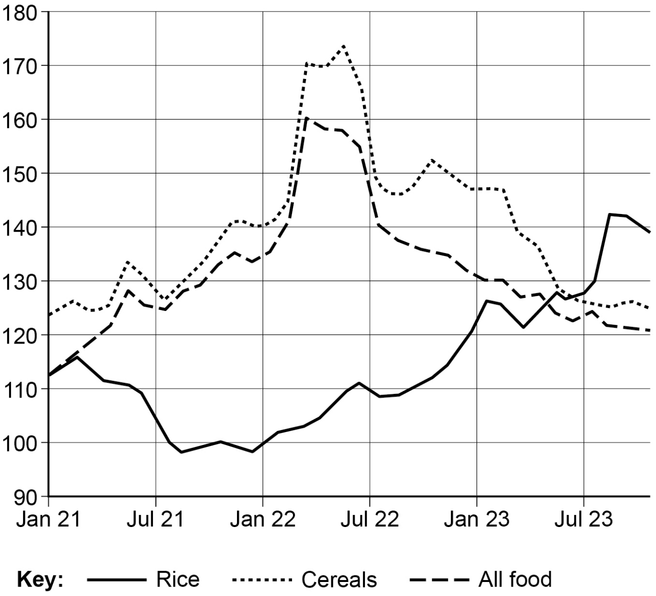
Extract A:

Figure 1: Exports of rice (million tonnes) 2010 to 2022

Country	2010	2022
India	2.8	22.5
Thailand	10.6	8.5
Vietnam	7.0	7.5
Pakistan	3.4	3.7
USA	3.5	2.0
Rest of the world	7.9	11.4
Total	**35.2**	**55.6**

Source: International Food Policy Research Institute, 2023

Figure 2: Index of world prices for rice, cereals and all food, 2021 to 2023 (2015 = 100)



Note: 'Cereals' includes rice and six other cereals

Source: Food and Agriculture Organization, 2023

Extract B: A ban on Indian rice exports

In Nigeria, rice is the most commonly consumed food but the price of this imported cereal rose by 46% in the year to August 2023. The sharp increase in the price of rice follows a rice export ban by India, the world's largest exporter. The ban, introduced in August 2022, was in response to fears of a production shortfall in India and rising domestic prices.

Analysts warn that the world is on track for a repeat of the 2008 rice crisis when protectionist policies contributed to rice prices tripling. This time the crisis could be worse, as soaring demand, driven by population growth, combines with the effects of climate change, leading to poor harvests. In Thailand and Vietnam, the world's second and third largest rice exporters, prices have risen by 14% and 22% respectively since India imposed its ban. The United Nations World Food Programme (WFP) points out that the countries likely to be worst affected, such as Nigeria, are already suffering from sky-high food prices, soaring debt and depreciating currencies. This will result in "a staple commodity not being affordable for millions", said a spokesperson.

Not only has India's share of global rice exports grown, but the amount of rice traded around the world has doubled from 5% of global production in 1999 to over 10% today, making importing countries, such as Nigeria, more vulnerable to export bans.

Consumers in Nigeria spend a large share of their incomes on food. Thus, rising prices could force them to reduce the amount of food they eat, or they may have to cut consumption of other necessities like energy and healthcare. In Nigeria, the demand for rice is very price inelastic.

Source: News reports, 2023

Extract C: What options do rice-importing nations have?

The rise in the price of rice is not likely to have much impact on household food budgets in more economically developed countries (MEDCs), but the impact in less economically developed countries (LEDCs) will be more significant.

Governments of LEDCs may try to support people on low incomes with direct cash transfers or subsidise rice prices. However, these are costly options for governments with low tax revenues, already struggling to maintain public services. An alternative would be to impose a maximum price for consumers, as both Sri Lanka and the Philippines have done, but this creates problems for food suppliers facing high import prices.

Many countries are trying to increase farm productivity to be less exposed to global supply shocks such as the Indian rice export ban. Investment in irrigation, mechanisation and crop science can make a difference but typically suffers from long time lags. If countries can switch from producing other cereals to the production of rice, this may also help.

Source: News reports, 2023

0 1 Using the data in **Extract A (Figure 1)**, calculate the difference between India's share of world exports of rice in 2010 and 2022.

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

[2 marks]

0 2 Explain how the data in **Extract A** (**Figure 1** and **Figure 2**) show that the rice export ban by India in 2022 is likely to have had a significant impact on the world price of rice.

[4 marks]

0 3 **Extract B** (line 19) states: 'In Nigeria, the demand for rice is very price inelastic'.

With the help of a diagram, explain how the Indian export ban is likely to have affected the market for rice in Nigeria.

[9 marks]

0 4 **Extract C** (lines 6–7) states: 'An alternative would be to impose a maximum price for consumers, as both Sri Lanka and the Philippines have done'.

Using the data and your knowledge of economics, evaluate the view that imposing a maximum price for rice is the best way for a rice-importing nation, such as Nigeria, to ensure the affordability of a basic food for its citizens.

[25 marks]

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

OR

Context 2 — Total for this context: 40 marks

The UK water industry

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

Extract D:

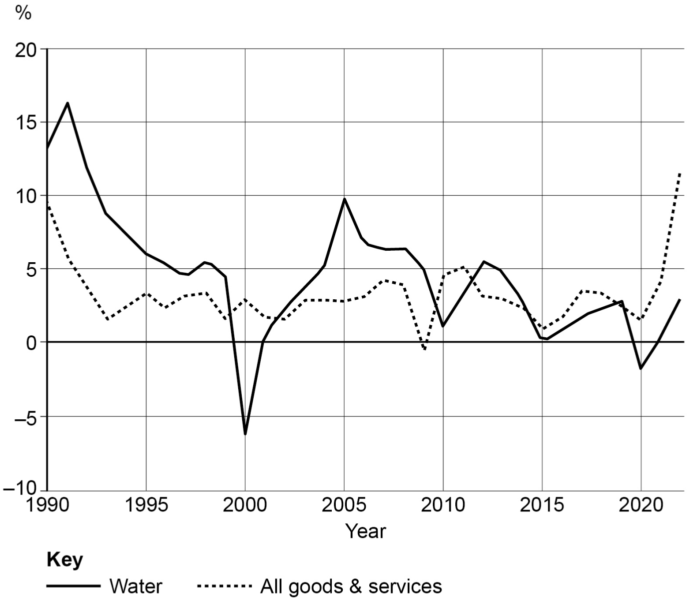
Figure 3: Number of storm overflow hours, by water company, 2022

Water company	Number of storm overflows (000s of hours)
United Utilities	425
South West Water	290
Severn Trent Water	249
Yorkshire Water	232
Southern Water	147
Wessex Water	130
Northumbrian Water	108
Anglian Water	90
Thames Water	75
Welsh Water	9
Total	**1755**

Note: The data in **Figure 3** show the number of hours that each company released harmful sewage into rivers and the sea.

Source: Ofwat, 2023

Figure 4: Annual percentage change in price indices for water and all goods & services, 1990 to 2022



Source: ONS, 2023

Extract E: England's privatised water companies run into trouble

Water companies have repeatedly poured large quantities of harmful, untreated sewage and storm water into Britain's rivers and seas. Pressure on the government and regulators to act has increased. Ofwat, the water regulator, said that none of the 17 water companies achieved its targets in 2022. Leakages and burst pipes both increased, as did the likelihood of companies missing targets for clean drinking water. Customer service also deteriorated.

Many water companies are struggling. When England privatised its formerly publicly-owned regional water companies in 1989, the companies started without any debt. Since then, water companies have borrowed heavily, yet infrastructure is crumbling.

Inflation has increased labour, energy and financing costs, putting some companies at risk of collapse. The minimum efficient scale in the water industry is large and substantial investment is needed to build and maintain the network of sewers and pipes. To fund investment, water companies have asked Ofwat to allow them to increase prices by around 60% between 2025 and 2030. Because the water companies are local monopolies, Ofwat decides on price increases. It also has to approve water company plans for upgrading and maintaining infrastructure over the 5-year period. However, Ofwat said that 12 of the 17 companies had missed their investment targets. Water companies cited high inflation and labour shortages as obstacles to investment, but critics argue that shareholders' dividends are too high, totalling £72bn since privatisation.

Source: News reports, 2023

Extract F: What next for the water industry?

Water companies are regulated by Ofwat and the Environment Agency (responsible for regulating their environmental impact). Critics suggest that the water companies have too close a relationship with regulators, resulting in weak regulation. Nevertheless, regulators have issued fines: in 2021, Southern Water was given a £90m fine for dumping billions of litres of raw sewage into rivers and the sea. However, if regulators impose fines, these costs may be passed on to consumers or reduce investment. Some argue that the investment needed to improve the sewage infrastructure is too expensive for the water companies to make alone. A government report estimated the cost of eliminating storm overflows at between £350bn and £600bn, adding almost £1 000 to customers' annual bills.

Ofwat has warned about the financial health of four water companies in England. Ofwat's concerns arise despite industry investment of £4.6bn since 2020. This ability to attract private sector investment, along with improved efficiency and technological innovation, has been a positive aspect of water privatisation. For example, 60% of homes now have a water meter installed, reducing water consumption. Nevertheless, some are calling for the industry to be renationalised. However, nationalisation would be expensive as shareholders would need to be compensated. The estimated cost is £14.7bn, rising to over £90bn if the industry's debts are included.

Source: News reports, 2023

0 5 Using the data in **Extract D (Figure 3)**, calculate the median number of storm overflow hours by water company in 2022.

[2 marks]

0 6 Explain how the data in **Extract D (Figure 4)** show that household water bills have increased in real terms since privatisation in 1989.

[4 marks]

0 7 **Extract E** (line 10) states: 'The minimum efficient scale in the water industry is large'.

With the help of a diagram, explain why the large minimum efficient scale in the water industry is likely to lead to the market being supplied by a few large firms with monopoly power.

[9 marks]

0 8 **Extract F** (lines 5–6) states: 'if regulators impose fines, these costs may be passed on to consumers or reduce investment'.

Using the data in the extracts and your knowledge of economics, assess the view that stronger regulation would be a better policy than bringing the water industry back into public ownership.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

Broadcasting used to be considered a public good, but the growth of on-demand television streaming services suggests that this is no longer the case. In 2023, 68% of UK consumers were subscribing to one or more oligopolistic providers of on-demand television streaming services.

0 9 Explain, with examples, the differences between a private good, a public good and a quasi-public good.

[15 marks]

1 0 Evaluate the view that oligopolies serve society well.

[25 marks]

OR

Essay 2

In 2023, the UK government pledged to invest £960 million in green technologies, such as renewable energy schemes. The aim is to help reduce the cost of green technologies for businesses and to encourage their adoption by firms. Environmental groups suggest that currently only a small proportion of UK firms take environmental objectives seriously, preferring instead to focus on profit.

1 1 Explain how technological progress can affect productivity, efficiency and firms' costs of production.

[15 marks]

1 2 Assess the view that the main objective of firms is to maximise profits.

[25 marks]

OR

Essay 3

The UK government announced that the National Living Wage (NLW) would rise to £11.44 in April 2024 (for those aged 21 and over). This is around 66% of median hourly income, a big rise compared with its introduction in 1999, when it was only 45% of median hourly income. Some firms have warned that this increase in the NLW will lead to a fall in the number of workers they employ.

1 3 Explain the factors that determine a firm's demand for labour.

[15 marks]

1 4 Assess the view that a national minimum wage, such as the UK's National Living Wage, contributes to an improvement in economic welfare.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page