

HOW TO EVALUATE ON THE UNIT 1 EXAM

To evaluate : to make a judgement having weighed-up and argued different points of view, having fully argued the benefits, having fully argued the drawbacks.

There are words and phrases, you should force yourself to use to ensure that the sentence you write is going to score marks for evaluation.

These are : ‘however.....’, ‘on the other hand.....’, ‘ to some extent.....’, ‘This may not always be the case because.....’ , ‘it depends on.....’ , ‘this might lead to.....’

Before you write anything, you need to think about how you are going to evaluate. You need to look at an effect, a govt policy, a factor or a cause from different points of view and question it.

So, given that examiners are testing your ability to think for yourselves, this guide is just some pre-digested thinking for you, some thoughts other have had in previous exams.

It is divided into three sections :

- I. Market Failure : Good Stuff**
- II. Market Failure : Bad Stuff**
- III. Markets Working**

BUTthe boundaries between the sections are fluid. So, some evaluation points which are here in one section, could easily be in another.

MARKET FAILURE : GOOD STUFF

- ★ what kind of education / healthcare is being expanded. For example, if the govt spends an extra £100, on giving everyone over the age of 70 a flu jab, that is not going add much to a healthy and productive workforce. However, expanding university places for engineers, that could potentially be a big boost to a productive, wealth-generating workforce. This will lead to an outward shift of the PPFeventually.....
- ★ long term vs short term. This is a common evaluation point. If you are discussing the effect of a policy, you should discuss whether it is likely to be in the short-term or the long term. For example, EMA will take years before there is a social benefit as the economy waits for 16 year olds to complete their A levels and uni course.
- ★ some argue that increasing spending on education or healthcare improves our competitiveness. But competitiveness is a relative measure and so it will only increase competitiveness if other countries do not increase their spending on healthcare or education. Ceteris Paribus. All Day Every Day™
- ★ another common evaluation point in Economics, is of course opportunity cost. If the govt spends an additional £1bn on education, that has an opportunity cost. So, to give a simple example, if that extra £1bn on education leads to £1bn of cuts for the police, the external cost of crime could outweigh the additional external benefit of the expansion in education. If you were feeling especially clever, you could combine two of these evaluation points and discuss how the external cost of crime is in the short-term, but the external benefit of a more productive workforce is in the long-term
- ★ when considering overall welfare gain, do evaluate who pays the cost and who gets the benefit. So, for example, if the govt expands university places by increasing tuition fees, then there is a private cost to the student, who will gain in the long term and only pay in the long term. One benefit might be for firms, who will gain higher profits, but they will also have to pay higher wages to attract good graduates.
- ★ always question how effective a government policy is likely to be. You could mention some degree of government failure or even unintended consequences. Introducing 24 hour drinking was aimed at easing the burden on the Police who were faced with drunken

hordes at 11pm every weekend. In fact, alcohol-related crime has not decreased, it has just moved to the hours of 3am to 6am.

- ★ question the assumptions of a govt policy. All policies have their limits. And they can create winners and losers. Smoking ban = bad for pubs. To use the example of an expansion of higher education places, the policy assumes that jobs are available for these graduates. There might not be. Sorry to tell you.
- ★ Equity, fairness and access. What is the impact on different income groups. Tuition fees might put poorer students off going to university. Introducing dental charges might lead to poorer households with bad teeth.

MARKET FAILURE : BAD STUFF

- ★ Tax smokers, polluters, congestors etc. Here weigh up the benefits of raising extra govt revenue (but where what will the money be spent on) against the strength of the disincentive. Taxes tends not to change addictive behaviour.
- ★ Equity, fairness and access. Poor market traders having to drive through London, poor smokers having more of their income taxed. Do some socially disadvantaged groups have limited access to quitting smoking, alcohol-abuse programmes as there neighbourhood does not have great provision.
- ★ substitutes such as nicotine replacement patches, public transport. Here you could discuss how strong is Cross Elasticity of Demand. If the goods have a high CED then the provision of substitutes will be effective.
- ★ Unintended consequences : high taxes can lead to more contraband goods being sold. This is government failure as it could lead to a net welfare loss. Even intervention in agricultural markets (for example restricting imports) could lead to a new hidden market
- ★ Why do we want people to live longer? Less people dying of smoking means more people needing treatment for Alzheimers, more spending on pensions.
- ★ Where there are winners, there are losers. Cigarette manufacturers, car companies, shops in London which depend on passing trade
- ★ Asymmetric information : this is where the extent of the cost or benefit is known. The current govt's plight to eliminate all smoking from all persons and all places has led to

more information available on the harm caused through smoking, so asymmetric information might not be relevant.

- ★ **Government failure :** remember that government failure is not market failure. Government failure is when governments intervene to correct market failure and there intervention leads to a net welfare loss. Whenever you are discussing a govt policy, think if there is an example of it having the potential to making the situation worse.

MARKETS WORKING

- ★ **Signalling.** Remember that markets are all about sending signals to consumers and producers. call into question how well those signals are received. And if they bring about the required change. So, for example, do higher prices always lead to a reduction in consumption..... and to what extent?
- ★ **Evaluate / Examine two or three factors.....** one way of evaluating is to rank these factors. Which is the most important and why? Which is the least important and why?
- ★ **What are the magnitude of any changes?** For example if house prices increase by 10% that has a significant effect, where as a small increase of 0.1% does not.
- ★ **Discuss the long term and short term impact of price changes.** If the price of opium falls, this may damage farmers' incomes in the short term but in the long term it might act as an incentive to switch production to tea, for example.
- ★ **If the question is about the effect of high/low prices,** you could discuss how likely it is that the price will remain at the high/low level.
- ★ **Question the accuracy of the data – is it complete? is it out of date? who collected it? could it be biased?**
- ★ **Markets working well depends on the mobility of all factor inputs.** So, the supply of textiles from China is elastic only because there is an availability of cheap labour. These workers can easily switch between stitching football shirts to teddy bears. So that market works well.
- ★ **Ceteris Paribus. All Day Every Day™** When discussing the impact of a price change, we assume that everything remains the same. However, this might not be true. For example,

if house prices go up in London, that should lead to fewer people buying houses in London, to fewer folk moving to London to seek work. In other words, it will lead to geographical immobility.....ceteris paribus. However, at the same time, there was an increase in immigration from Eastern Europe, where immigrant labour was willing to live in smaller accommodation. so, in fact, job vacancies did not increase.

- ★ Even when discussing markets working, you could discuss how markets do not always work and that there might be market failure, government failure or unintended consequences.
- ★ Elasticity : never say is, say might. For example, "the elasticity of supply for rice is likely to be elastic in the short run, but it depends on the availability of the land and how quickly farmers can switch production. This will depend on the technology that is available to them. In Thailand, this technology might not be readily available."
- ★ Intervention in agricultural markets : this is a treasure trove for evaluation. Buffer stock schemes have proven to be unsuccessful because of the huge cost and the need to store stocks. Producers do not want to participate when prices are too low. They can benefit richer producers who have surplus stock to sell. The incentive to cheat is huge. The opportunity cost of such a scheme is controversial.
- ★ Equity, Fairness and Access. It is hugely unfair on us all that MacBooks are allocated through the price system and so only those who can afford them, can obtain them. In a fair and just world, every man, woman and child would have a MacBook. Make Windows History.