1.26 Government Intervention: Indirect Taxes, Subsidies and Price Controls: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions in full sentences where required. Show working for calculations. Draw diagrams where asked and label axes and shifts. Time guidance 10 minutes.

1 Explain briefly, with reference to elasticity, why the division of the burden of a specific tax between consumers and producers depends on the relative price elasticities of demand and supply in the taxed market.

(Total for Question 1 is 4 marks)

2 Explain two ways in which indirect taxes may fail to correct a negative production externality in a market such as coal power generation.

(Total for Question 2 is 4 marks)

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Mark scheme · 1.26 Government Intervention: Indirect Taxes, Subsidies and Price Controls: 10-minute Pack

Question 1

states that the more inelastic side of the market bears a larger share of the tax burden	**M1**
explains that if demand is very inelastic consumers reduce quantity little so they accept most of price rise, bearing more of the tax	**A1**
complements with supply elasticity: if supply is inelastic producers cannot easily reduce quantity so they bear more	**M1**
provides concluding statement linking relative elasticities to incidence of tax	**A1**

Answer: Tax incidence falls more on the relatively inelastic side: if demand is inelastic consumers bear more; if supply is inelastic producers bear more, because the less elastic side cannot change quantity easily and so accepts more of the price change.

Question 2

identifies one way: setting the tax at the wrong level because the social cost is hard to measure	**M1**
explains that if the tax is too low pollution continues and if too high it causes excessive contraction or black markets	**A1**
identifies second way: taxes may be regressive or politically difficult, leading to weak enforcement or exemptions	**M1**
explains that regressivity or political resistance can cause partial coverage or loopholes, so externality persists	**A1**

Answer: Taxes may be set at the wrong level because social costs are hard to measure, so pollution remains or markets are distorted, and taxes may be politically regressive or poorly enforced, creating loopholes and exemptions which weaken their corrective effect.

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