

H2 Economics (9570) Theme 2.2 & 2.3 – Exam Pattern Notes

A-Level 2027 Syllabus

Exam Structure Overview

Paper 2 (Theme-based Essays): 3 essays from 6, 2h30min, 75 marks (60% of H2). Each essay is 25 marks — Part (a) 10 marks, Part (b) 15 marks.

- Part (a) tests AO1 (knowledge) and AO2 (application/analysis). Structure: **DIEE**.
- Part (b) tests AO3 (analysis) and AO4 (evaluation). Requires balanced judgement.

Timing: 40–45 min per essay (5 min planning, 35–40 min writing). About 1.7 min per mark.

DIEE Framework (Part a)

Step	What to Do
Define	Define key terms in the question (e.g. market failure, public good, price discrimination).
Illustrate	Draw a relevant diagram (cost curves, externality diagram, MR=MC diagram).
Explain	Explain the mechanism: what happens step-by-step, referring to the diagram.
Evaluate	Briefly evaluate: limitations, assumptions, context. (Limited depth in Part a.)

Evaluation Strategies for Part (b)

Part (b) requires 2–3 paragraphs of analysis + evaluation (AO3/AO4).

The “Big Six” Evaluation Dimensions:

1. **SR vs. LR:** Effects differ over time (e.g. price discrimination may increase output in SR, but erode consumer trust in LR).
2. **Stakeholders:** Firm, consumers (different groups), government, society. Not all stakeholders are affected equally.
3. **Intended vs. Unintended:** Policy may achieve its goal but create side effects (e.g. tax reduces pollution but hurts low-income households).
4. **Magnitude:** How big is the effect? Depends on elasticities, size of externality, market structure.
5. **Efficiency vs. Equity:** A policy may be efficient (corrects DWL) but inequitable (regressive). Trade-off.
6. **Government Failure:** Could intervention make things worse? Imperfect info, regulatory capture, unintended consequences.

Command Words & What They Require

Command Word	What the Examiner Expects
Explain	Cause-and-effect reasoning. Show <i>why</i> something happens. Usually needs a diagram.
Discuss	Balanced analysis covering both sides. Conclude with a reasoned judgement.
Evaluate	Assess strengths and weaknesses. Weigh evidence. State conditions under which the statement holds.
To what extent	Same as evaluate — consider arguments for/against, make a nuanced conclusion.
Assess	Analyse effectiveness. Consider criteria (efficiency, equity, feasibility).
Examine	Break down into components. Show how each component contributes to the whole.
Analyse	Identify key relationships and show how they interact (e.g. how market structure affects pricing).

Question Patterns Bank

Theme 2.2 Question Patterns

Pattern A: “Explain how firms decide on profit-maximising output.” 10-mark Part (a). Follow DICE: Define profit, draw MC/AC/MR diagram, show $MR=MC$, explain why $MR>MC$ triggers expansion and $MR<MC$ triggers contraction. Marks: definition (2), diagram (3), explanation (4), brief evaluation – info problem (1).

Pattern B: “Evaluate the view that profit maximisation is the most important objective of firms.” 15-mark Part (b). Para 1: Profit max as benchmark – $MR=MC$, shareholder pressure, allocative efficiency. Para 2: Alternative objectives – revenue max, satisficing, market share. When each applies. Para 3: Evaluation – depends on firm size, ownership structure, industry context. Conclusion: Profit max is the default assumption but real firms pursue multiple objectives.

Pattern C: “Explain how economies of scale affect a firm’s cost structure.” 10-mark Part (a). Define economies of scale, draw LRAC showing falling portion, list types (technical, managerial, financial, marketing, risk-bearing), briefly mention MES and diseconomies.

Pattern D: “Assess the impact of price discrimination on consumers and firms.” 15-mark Part (b). Para 1: Definition, conditions (market power, separable markets, different PEDs). Diagram. Para 2: Benefits – firm profit \uparrow , elastic-market consumers pay less, output may increase. Para 3: Costs – inelastic-market consumers pay more, equity concern. Conclusion: Net effect depends on size of price differential and fairness of segmentation.

Pattern E: “Discuss the factors that influence a firm’s choice of pricing strategy.” 15-mark Part (b). Consider: market structure, degree of competition, barriers to entry, PED of product, firm objectives, regulatory environment. Contextualise: oligopolist may avoid price competition (fear of price war), monopolist can price discriminate, perfect competitor is price-taker.

Theme 2.3 Question Patterns

Pattern F: “Explain the concept of market failure.” 10-mark Part (a). Define market failure as $MSB \neq MSC$. Diagram showing negative externality ($MSC > MPC$) with DWL. List causes: public goods, externalities, info failure, factor immobility, market dominance.

Pattern G: “Evaluate the use of taxes to correct negative externalities.” 15-mark Part (b).
 Para 1: Theory – Pigouvian tax internalises external cost, raises MPC toward MSC, reduces output.
 Para 2: Strengths – market-based (flexible), generates revenue (double dividend), addresses root cause (price signal).
 Para 3: Weaknesses – estimating correct tax rate (imperfect info), regressive, may cause firms to relocate (carbon leakage), administrative costs.
 Conclusion: Effective when externality is well-understood and PED is inelastic; complement with regulation for harder-to-measure cases.

Pattern H: “Examine the causes of market failure arising from public goods.” 10-mark Part (a). Define public goods (non-rival, non-excludable). Explain free-rider problem → under-provision. Mention non-rejectability. Examples: national defence, street lighting. Contrast with quasi-public goods (toll roads).

Pattern I: “To what extent should the government intervene to address income inequality?” **Note:** Inequality is NOT a market failure under the syllabus. Para 1: Equity vs. efficiency trade-off – redistribution (progressive tax, transfers) reduces inequality but may distort incentives (DWL of taxation). Para 2: Government intervention – subsidies for essential goods (HDB, education), progressive income tax, GST vouchers, Workfare. Para 3: Limits – government failure (bureaucracy, unintended consequences), political constraints, global competition (tax competition). Conclusion: Intervention justified on equity grounds but must balance efficiency costs.

Common Errors to Avoid

Warning

Top mistakes in Theme 2.2 & 2.3 essays:

1. **Confusing internal vs. external economies:** Internal = firm-level. External = industry-level. Frequently tested.
2. **No diagram for cost/revenue:** Always draw MR=MC diagram when discussing profit max. Diagrams are expected even if not explicitly asked.
3. **Listing without analysing:** Don’t just list the four market structures. Explain *why* each structure leads to specific strategy choices.
4. **One-sided evaluation:** “Evaluate” requires both sides. Stating only benefits of a policy cannot score above AO3.
5. **Calling inequality a market failure:** The syllabus explicitly says inequity is a *distributional issue*, not a market failure.
6. **Missing elasticity justification:** For any D/S shift question, justify the elasticity value. Stating it without justification loses marks (HCI rubric checks R1/R2 per point).
7. **Generic conclusions:** “It depends” is not a conclusion. Specify *what* it depends on and give a judgement.
8. **Ignoring cognitive biases:** 2027 syllabus requires awareness of sunk cost fallacy, loss aversion, salience bias. Reference them for higher marks.
9. **Forgetting Singapore examples:** Contextualise theory with local examples (carbon tax, COE, Grab, CCCS, HDB, CPF).
10. **No government failure evaluation:** Always discuss the possibility that intervention may fail. This is essential for AO4 marks.

Essay Templates

25-Mark Essay Structure

Para	Focus	Content
1	Intro	Define key terms, state thesis, outline essay structure. 2–3 lines.
2	Body 1 (DIEE)	First argument (e.g. how a strategy benefits the firm). Diagram.
3	Body 2 (DIEE)	Second argument (e.g. limitations or counter-argument).
4	Body 3 (DIEE)	Third argument (alternative strategies or contextual factors).
5	Conclusion	Weigh arguments, make balanced judgement, qualify with context.

Exam Tip

Every body paragraph must have: (1) a clear topic sentence linked to the question, (2) an economic concept applied (not just described), (3) a diagram where relevant, (4) evaluation — this is what accesses AO4 marks.

Model Answer Template: “Evaluate the view that governments should always intervene to correct market failure.”

Introduction: Define market failure ($MSB \neq MSC$). State thesis: intervention is justified when benefits exceed costs, but government failure means it is not always optimal.

Para 1: Case for intervention – Externalities: Pigouvian tax/subsidy corrects divergence between private and social costs/benefits. Public goods: direct provision necessary because free market fails entirely. Information failure: regulation and public education help.

Para 2: Case against intervention – Government failure: imperfect information means government may set wrong tax rate; regulatory capture; bureaucratic inefficiency; unintended consequences (e.g. rent control reduces housing supply).

Para 3: Contextual factors – Depends on: type of market failure (public goods need direct provision, externalities can use market-based instruments), magnitude, administrative capacity, political acceptability. **Conclusion:** Intervention is justified where market failure is significant and well-understood, but must be designed carefully to minimise government failure. Pragmatic approach: start with market-based instruments, complement with regulation, review effectiveness periodically.

Quick Reference Table

Topic	Must-Know Point
Profit max	$MR = MC$ (MC rising). Info problem is key limitation.
Alternative objectives	Revenue max ($MR = 0$), satisficing (bounded rationality), market share.
Cost concepts	SR (TFC, TVC, TC, AFC, AVC, AC, MC) vs. LR (LRAC envelope curve).
Economies of scale	Internal (firm-level) vs. External (industry-level). MES.
Price discrimination	Conditions: market power, separate markets, different PEDs.
Collusion	Cartel (overt) vs. tacit. Unstable due to prisoner's dilemma.
Market structures	Awareness of 4 types — focus on barriers to entry and strategy implications.
Efficiency	Allocative ($P = MC$), productive (min AC), dynamic (innovation).
Efficiency vs. equity	Possible trade-off. Important for evaluation.
Public goods	Non-rival, non-excludable, non-rejectable. Free-rider problem.
Externalities	Negative (over-production) and positive (under-production). Two-diagram approach.
Asymmetric info	Adverse selection (hidden char.) and moral hazard (hidden actions). No diagrams.
Market dominance	$P > MC \rightarrow$ DWL. Allocative and productive inefficiency.
Policy toolkit	Taxes, subsidies, quotas, permits, direct provision, regulations, education, nudge.
Government failure	Intervention may worsen outcome. Imperfect info, regulatory capture, etc.
Cognitive biases	Sunk cost fallacy, loss aversion, salience bias. Exploited by firms and governments.

Singapore Examples for Essays

Include at least one Singapore-specific example in each essay for higher application marks:

- **Market dominance:** Grab (ride-hailing dominance, CCCS monitoring)
- **Collusion:** CCCS v. electrical contractors cartel (2018), confectionery price-fixing
- **Negative externality:** Carbon tax (S\$25/tCO_{2e}, rising to S\$50-80 by 2030)
- **Positive externality:** Education subsidies, SkillsFuture, Healthier SG
- **Public good:** SAF (national defence), street lighting, public parks
- **Quota:** COE (Vehicle Quota System)
- **Nudge:** CPF default contributions, opt-out organ donation (HOTA)
- **Factor immobility:** SkillsFuture, Workforce Singapore retraining programmes
- **Price discrimination:** MRT concession fares, tiered hospital charges