GradeMax



Mark Scheme (Results)

October 2016

Pearson Edexcel International Advanced Subsidiary in Economics (WEC01) Paper 01 Markets in Action

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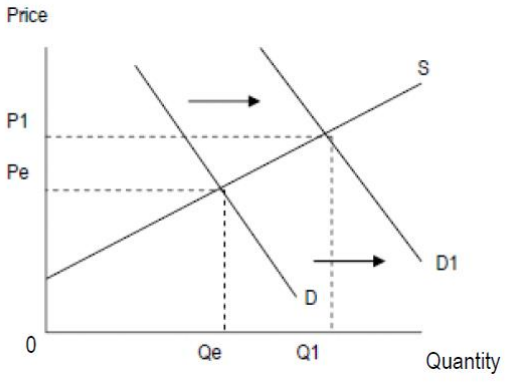
General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Supported multiple choice

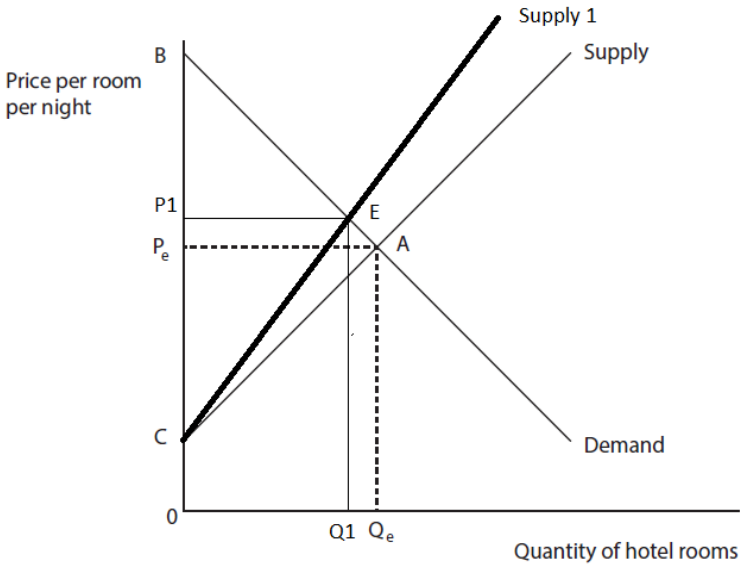
NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

NB: Candidates may achieve up to 3 marks (rejected marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
1	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of price mechanism - eg invisible hand /interaction of supply and demand / allocation of resources/ or identification of all three functions of price mechanism- incentive, signal and rationing **(1)** • Explanation may include: an increase in demand causes a rise in price and so indicates to producers to raise / extend supply **(1)**; an increase in supply causes a fall in price and so encourages consumers to raise / extend their demand **(1)** • If an increase in demand shifts the demand curve right/ up pushing up the price **(1)** and will cause an extension of supply **(1)** • Or Diagram for example showing rising demand **(1)** extension of supply **(1)** May show any shift in demand  **Rejection marks** • Option A: incorrect as price will fall when demand falls/ as price rises will be caused by demand rising not falling **(1)** • Option C: incorrect as price rises create an	

	incentive to increase supply to make more profit **(1)** • Option D: incorrect as the government is not involved in the price mechanism/ the price mechanism has the invisible hand to control allocation of resources not government **(1)**	**(4)**

Question Number	Answer	Mark
2	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of a mixed economy- combines free market and government intervention where necessary **(1)** • Definition of a public good- where a product has the features of non-excludability and non-rivalry **(1)** • Definition of market failure- where market forces lead to an inefficient allocation of resources **(1)** **Maximum 2 marks for definitions** • Application: free market economy is likely to under provide of public goods due to the free-rider problem means customers would use the good without paying **(1)** making it difficult for private sector businesses to make a profit **(1)** • Examples of public goods- lighthouses, street lights **(1)** **Rejection marks** • Option A: incorrect because external costs are negative third party effects that governments are likely to tax/ governments would subsidise goods that generate external benefits **(1)** • Option B: it is likely that the government will encourage renewable energy as they do not cause external costs like non-renewable energy can such as coal **(1)** • Option D: education is likely to generate external benefits and the government is likely to subsidise it rather than tax it **(1)**	**(4)**

Question Number	Mark	
3	**Answer B (1 mark)** • Definition of indirect tax- a tax paid via a third party/ tax on spending OR Definition of ad valorem tax- tax based on the value of a good **(1)** • Definition of producer surplus- the difference price willing to sell for and what the price they actually receive**(1)** • Supply will shift left **(1)** May be shown diagrammatically (reward a parallel shift to left) • Old and new equilibriums on diagram or identify that quantity falls and price rises **(1)** • Producer surplus decreases from ACPe **(1)** to P1EC **(1)** May be drawn on diagram  **Rejection marks** • Option A: incorrect as higher price means producer surplus falls (from ACPe to BEP1) not rises **(1)** • Option C: incorrect as price rises from Pe to P1/ producer surplus falls (from ACPe to BEP1) not rises **(1)** • Option D: incorrect as price rises from Pe to P1 **(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of asymmetric information- where one party has superior information to another / OR of imperfect information **(1)** • **Explanation** that this is market failure as resources are misallocated **(1)** • Insurers have superior knowledge about the costs of accidents/ police or courts have knowledge of the penalties of driving uninsured **(1)** • Drivers have inferior knowledge about the risk of losing their car, fines and costs if they have an accident **(1)** • People under consume because they are not aware of the possible costs of driving uninsured **(1)** **Rejection marks** • Option A: there are opportunities costs of buying car insurance as when purchasing car insurance money cannot be spent elsewhere **(1)** • Option B: incorrect as consumers feeling valued is more to do with why people make the decision to make a purchase **(1)** • Option C: if information was symmetric they would know all the costs and risks of being uninsured and would be more likely to insure **(1)**	**(4)**

Question Number	Answer	Mark
5	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of rationality- where consumers seek to maximise their utility **/**definition of irrational behaviour **(1)** • If customers were rational they would switch to cheaper gas suppliers **(1)** • To save up to £254 **(1)** • Habitual behaviour- where consumers continue to do something because they have always done it in the past **(1)** • Reward other reasons for not switching- 'computation problems or 'consumer loyalty' or 'inertia' **(1)** **Rejection marks** • Option B: incorrect as if they were acting rationally they would switch providers to save £254 **(1)** • Option C: incorrect as if people had perfect information about how much they could save they are more likely to switch providers **(1)** • Option D: incorrect as geographical immobility is about whether people will move area for employment not about whether they will switch suppliers **(1)**	**(4)**

Question Number	Answer	Mark
6	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition or formula for YED- responsiveness of Quantity Demanded to a change in income OR %ΔQD ÷ %ΔY **(1)** • Germany: 5/1.5= +3.333 **(1)** • Hong Kong: 17/2.5= +6.8 **(1)** • YED>1 so income elastic **(1)** • As incomes rose in Germany and Hong Kong the quantity of tourists travelling to Singapore from Germany and Hong Kong rises more than proportionately **(1)** • Both products have a positive elasticity so they are normal goods/ being elastic means it is a luxury good **(1)** **Rejection marks** • Option B: incorrect since price elasticity of demand would need data on price and quantity not income/ in China and Hong Kong the income elasticity is elastic but this refers to price elasticity **(1)** • Option C: incorrect since in Indonesia the income elasticity is inelastic not price inelastic/ Incorrect since price elasticity of demand would need data on price and quantity not income **(1)** • Option D: incorrect as in China the demand is income elastic as -20/6.9=-2.9/ is an inferior good as it is a - sign **(1)**	**(4)**

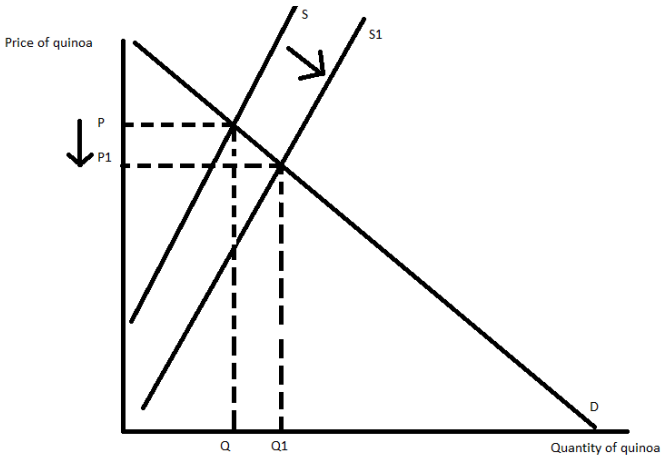
Question Number	Answer	Mark
7	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of price elasticity of demand- responsiveness of Quantity Demanded to a change in price OR %ΔQD ÷ %ΔP Definition or formula for Total Revenue= PxQ **(1)** • -0.43- PED <1 price inelastic demand **(1)** • 10% increase in price will see demand fall 4.3% **(1)** • The gains from additional revenue caused by higher price is bigger than losses from less quantity demanded **(1)** • May be shown diagrammatically on total revenue or demand curve / May show mathematically how total revenue rises**(1)** **Rejection marks** • Option A: incorrect as a decrease in the price of broadband would see the total revenue fall as the loss from the lower price will be bigger than the gain from extra customers due to lower price **(1)** • Option C: incorrect as inferior goods relate to income elasticity of demand **(1)** • Option D: incorrect as with inelastic demand an increase in price will see total revenue rise/ price fall will see total revenue fall/ the elasticity would need to be -1 for there to be no change **(1)**	**(4)**

Question Number	Answer	Mark
8	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of division of labour- where tasks are broken down and each unit of labour specialises on a task/ Specialisation when linked to members of staff **(1)** • The production of a wheel will be broken down so people specialise on different parts of the production process **(1)** • For example some might focus on heating the alloys, another cooling them and another on packaging the wheels **(1)- accept plausible relevant examples** • the division of labour should reduce costs as less training is needed **(1)** • efficiency/ productivity improves as less time is wasted changing between tasks **(1)** **Rejection marks** • Option A: each worker does the same task repeatedly and this may become monotonous and lead to increased not decreased boredom **(1)** • Option B: production typically rises as they become more efficient at producing it/ waste less time changing between tasks **(1)** • Option C: output per worker will rise as total output rises with the same number of workers meaning output per worker rises **(1)**	**(4)**

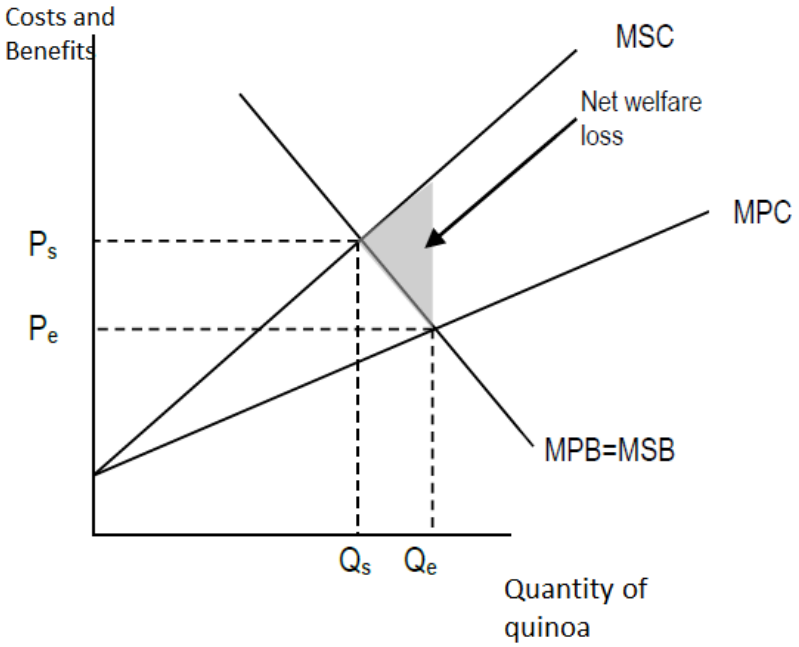
Section B: Data response

NB: KAA marks relates to those awarded for AO1, AO2 and AO3

NB: Evaluation marks relates to those awarded for AO4

Question Number	Answer	Mark
9(a)	**Knowledge, application and analysis (up to 6 marks)** • Data reference Quinoa price fell from January 2015- $US 4.90 to March 2015 $US 4.30 **(1)** • Harvest increase in Peru and Bolivia **(1)** • Farmers in other countries have also been encouraged to grow quinoa by the high prices in 2012 and 201/ Canada increased its crop **(1)** Diagrammatic analysis which shows: • a shift to the right of the supply curve **(1)** • original equilibrium price and quantity **(1)** • new equilibrium showing lower price and higher quantity **(1)**  	**(6)**

Question Number	Answer	Mark
9(b)	**Knowledge, application and analysis (Up to 4 marks):** • Definition of PES- responsiveness of QS to a change in price OR %ΔQS/%ΔP **(1)** • It can take a few years to establish new growing areas. **(1)** shows supply is inelastic **(1)** as cannot adjust quantity in response to changing prices **(1)** • As more became aware of the benefits of quinoa farmers increased the amount of land devoted to grow the crop to meet the demand, but the slow speed of growth of quinoa led to the price increasing. **(1)** Shows supply is inelastic **(1)** as it takes time to adjust supply in response to rising prices **(1)** • Define price inelastic: where the quantity supplied is less responsive to changes in price/where the PES<1 OR price elastic where the quantity supplied is more responsive to changes in price/ where the PES>1 **(1)** • Diagram showing relatively inelastic / elastic supply curve **(1)** • Long run- likely to be elastic as firms can adjust factors of production **(1)** **Maximum 2 marks if no data reference**	**(4)**

Question Number	Answer	Mark
9(c)		**(14)**
Knowledge, application and analysis – indicative content		
	• Define external costs- costs to third parties not involved in transaction Economic effects- negative • 'Degrading of soil'- overuse of the land could mean that the land become unusable for farmers and third parties • farmers are attracting 'pests' and use more chemicals e.g. 'pesticides'- could affect the food supply or the water course. Others drinking water could become ill/ affect quality of meat of animals feeding on quinoa • 'air miles' create 'environmental damage.' Transporting to Europe means air pollution is caused and this affect others not buying quinoa. • Quinoa may take over- may create a dependency on one crop- if the price falls the farmers/economy could suffer • Diagram to show external costs:  Economic effects- positive • 'a superfood as it contains more protein than brown rice and potatoes' is 'gluten	

	free' 'packed with vitamins and minerals'/ 'a good substitute for meat' - likely to generate health benefits and lead to less need healthcare- external benefit • 'little else grows'- enables Peruvians/ Bolivians to grow a crop. Without it they would earn little. • More output means more revenue might be earned. Positives and negatives may be presented as either KAA or EV	

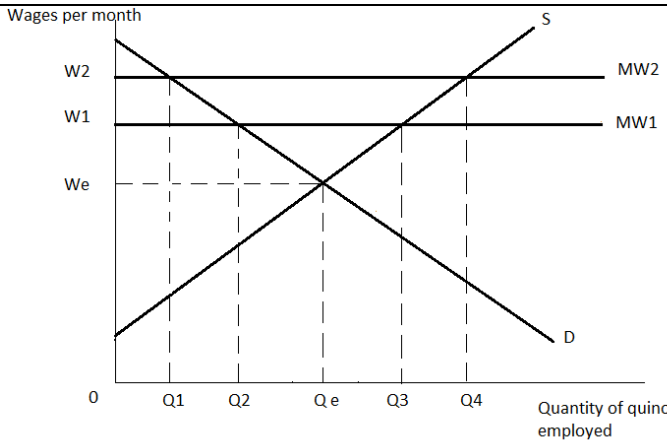
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effect of the growth in the production of quinoa but information presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the effect of the growth in the production of quinoa in the context. This may be supported by a diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the effect of the growth in the production of quinoa in the context. This may be supported by an accurately labelled diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Magnitude – depends on how much more produced • Measurement issue measuring the size of the external costs • Time period: short term more impact as supply relies on two countries. But long term others like Canada might take on production/ environmental may be more long term	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some

		reasoning and application to context.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

Question Number	Answer	Mark
9(d)		**(10)**
Knowledge, application and analysis – indicative content		
	• Definition of minimum wage-the lowest amount of wages a firm will be able to pay workers • Minimum wages increased from 680 to 1 440 Bolivian Boliviano per month between 2011 and 2015 Possible negatives from minimum wage • Affects cost of production- effect of reducing supply and driving up price. • Bolivia and Peru supply 95% of world supply- so could affect international market • Some firms may shut down as they cannot afford costs- quinoa workers will find unemployment rises • The problem of such large increases in minimum wage is that workers have no incentive to work hard as they can sit back and relax in the knowledge that the Government will keep increasing minimum wage. • Working in the 'informal sector' earning 'less than minimum wage' Earning less in worse conditions- not paying taxes • Diagrammatic analysis • Showing an increase in minimum wage E.G. MW to MW1 • QD falls from Q2 to Q1 • QS falls rises from Q3 to Q4 • Unemployment rises for quinoa workers to Q4-Q1	



Possible positives from minimum wage

- Offset price increase so customers can afford- many quinoa farm workers will earn enough to buy the crop even at the higher prices
- Quinoa workers will be able to meet basic needs- living cost
- May result in increased productivity of quinoa workers

Positives and negatives may be presented as either KAA or EV

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of minimum wage. The diagrams may be missing or showing the imposition of the minimum wage and not the increase. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	3-4	Understanding of minimum wage in the context of quinoa market in Bolivia. This may be supported by an accurately labelled diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	5-6	Clear understanding of minimum wage in the context of quinoa market in Bolivia. This will be supported by an accurately labelled diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Magnitude- significant rise- 680 to 1 440 • Measurement problem- difficult to measure impact • Time lag- may keep buying from Bolivia when costs rise but may substitute to Peru/ Canada when contracts expire • Will depend on whether the workers are currently being paid above or below the minimum wage	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
9(e)		**(14)**
Knowledge, application and analysis – indicative content		
	• Definition of subsidies- grant paid to producers Producers • Lowers costs for producers • Increases supply of quinoa as subsidy helps with profits • Lowers price • (likely to be drawn diagrammatically) • Increased producer surplus • Increased pressure to produce more- link to external costs Consumers • Lowers price- making quinoa more affordable • Increases quantity consumed- 'from 4 000 tonnes in 2010 and grew to 20 000 tonnes by the end of 2013' • Consumers will reap more health benefits- vitamins, minerals • Was helpful as prices were rising in 2013- product was unaffordable for many • Increased consumer surplus Bolivian Government • Cost to Government for subsidy • Opportunity costs for Government	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effect of subsidy on consumer, producer and/ or Government
2	4-6	Understanding of the effect of subsidy on consumer, producer and/ or Government.
3	7-8	Clear understanding of the effect of subsidy on consumer, producer and Government offering detailed explanations of them and with appropriate application to context.

Evaluation – indicative content		
	• Magnitude- depends on size of subsidy	

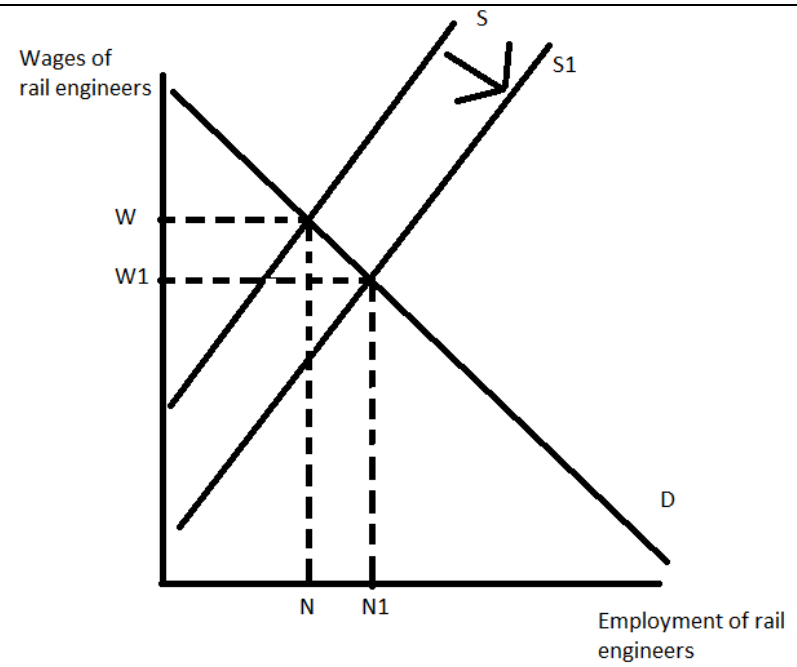
	• Cost of subsidy to government • Incidence of subsidy- may benefit producer more if elastic demand/ benefit consumer if inelastic demand • Evidence in Figure 1 is that not only did prices not fall but they actually rose, in particular after 2013. Possibly could have slowed the increase.	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

Question Number	Answer	Mark
10(a)	**Knowledge, application and analysis (up to 4 marks)** • Definition of positive statements- value free/ scientific/ can be proven **(1)** • National College will lead to 2 000 more engineers – positive as can be tested to see how many engineering apprenticeships are taken up **(1)** • Definition of normative statement- value judgements/ non-scientific/ cannot be proven **(1)** • HS2 should be built to benefit UK regions- normative as the word should shows it is a value judgement and cannot be proven **(1)**	**(4)**

Question Number	Answer	Mark
10(b)	**Knowledge, application and analysis (Up to 6 marks):** • Definition of geographical mobility of labour- ability of people to move locations for employment **(1)** • Places like Birmingham, Wigan, Manchester, Nottingham, Leeds **(1)**- will have access to high speed trains which means they can get to other places on the network more quickly **(1)** • Journey times fall e.g. Birmingham 85 to 50 minutes, Nottingham 105 to 70 minutes **(1)** • This will increase the incentive to take up employment in other locations as they can still live where family and friendship ties exist **(1)** whilst working elsewhere **(1)** **Maximum 4 marks if no data reference**	**(6)**

Question Number	Answer	Mark
10(c)		**(10)**
Knowledge, application and analysis – indicative content		
	Positives • 2 000 apprenticeships will be created by HS2 • It will provide training to the next generation of engineers- increasing the supply of engineers • There are not enough engineers in the UK. Without them a shortage of engineers could push up wages • The opening of the National College will ensure a pool of workers with the right skills to draw upon for future projects- not just HS2 • Supply increases, leading to lower wages and higher employment- see diagram below	

	 b **KAA arguments maybe used as evaluation or vice versa**	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of National College impact. Diagram may be inaccurate.
2	3-4	Understanding of National College may impact the labour market. Diagram likely to be accurate
3	5-6	Clear understanding of how National College will affect the labour market for rail engineers. Accurate diagram drawn and explained

Evaluation – indicative content		
	• Birmingham and Doncaster- most impact on labour market in these places • Short term- being trained not in labour market/ long term- join the labour market- increase in supply delayed • Magnitude- depends on the numbers trained • Opportunity costs- spending money on the college will take away from other areas • Increased demand for engineers so wages will in fact rise/ the increased supply of rail engineers will not necessarily reduce wages given the rising demand for engineers nationally.	
Level	Marks	Descriptor

0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	Answer	Mark
10(d)		**(14)**
Knowledge, application and analysis – indicative content		
	• Definition of external benefits-positive impact on third parties • Definition of external costs- negative impact on third parties External benefits • Businesses benefit from quicker journey times helping to lower costs/ employee benefits from less journey time • 2 million trees planted- this will help the environment and third parties benefit from better appearance of countryside • 4.5m air trips and 9m road trips a year will be saved helping to cut carbon emissions- everyone benefits from lower carbon emissions in terms of health etc. • Reduced carbon emissions by up to 1m tonnes a year by 2055- people benefit from less emissions • Boost West Midlands' economy by £4bn per year- not involved in building • Rail freight benefit from extra capacity • Business benefit from a larger pool of employees for local businesses, improving productivity and reducing business costs • Reduced congestion on local and national roads- lowers journey times for individuals and business • Attracts an investment External costs • 14 historic buildings along the route could be destroyed- loss of historic buildings- loss to the owner- compensation paid by government taxpayers pays • £500m tunnel will be built through the Chiltern	

	Hills, an area of outstanding natural beauty- those living nearby and visiting area will suffer • travelling at this speed will use up 3 times the fuel - more emissions- negative impact on environment as more electricity needs to be generated • an area size of a large city will be concreted- those living in countryside will have concrete in environment- concrete production pollutes. • Other external costs- visual, noise and air pollution/ falling property prices for those too near the route who do not receive compensation/ impact on road haulage companies and air transport firms		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of external costs and benefits. Material presented is often irrelevant and lacks organisation or may be confused. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.	
2	4-6	Understanding of external costs and benefits, with some application to context of HS2. This may be supported by an accurately labelled diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.	
3	7-8	Clear understanding of the external costs and benefits of HS2. There may be an accurately labelled diagram which is explained and applied effectively to the context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.	
Evaluation – Indicative content			
	• Magnitude- depends on the size of impact on third parties • Measurement- hard to quantify costs/ benefits • Time period- short run- costs of environmental damage- long term journey time and cuts to emissions- external benefits • spending on HS2 may result in less spending on other areas of the rail network with accompanying detrimental effects. • Building a £500 m tunnel through the Chilterns demonstrates attempts by the producers to reduce external costs.		
Level	Marks	Descriptor	

0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some reasoning and application to context.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

Question Number	Answer	Mark
10(e)		**(14)**
Knowledge, application and analysis – indicative content		
	Manufacturers of high speed trains • Derived demand- demand for high speed rail rises- demand for high speed train rises (complementary goods) • Higher demand means higher price, higher quantity, more revenue, higher profits/ producer surplus • Increase employment and wages offered to employees • More money for investment- dynamic efficiency Airlines running flights from London to Birmingham • High speed rail will be substitute for airlines • So if more people use high speed trains less will fly • Lower demand for flights- lower quantity and lower price- lower revenue- lower profits/ producer surplus • Decrease employment and wages offered to employees • Less money for investment	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of impact of HS2 on train manufacturers and airlines. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of impact of HS2 on train manufacturers and airlines, with some application to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of impact of HS2 on train

		manufacturers and airlines with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.
Evaluation – indicative content		
	• Magnitude- impact depends on how many substitute • Short run- little impact as takes time to build train line so demand for train will not rise till later/ long term impact bigger • Measurement- of the impact on high speed train manufacturers and airlines • Airlines- less impact as many other routes to make up for it • Train manufacturers- takes a long time to build so costs will be high short term/ receive payment only later	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some reasoning and application to context.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

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