GradeMax



Mark Scheme (Results)

October 2017

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

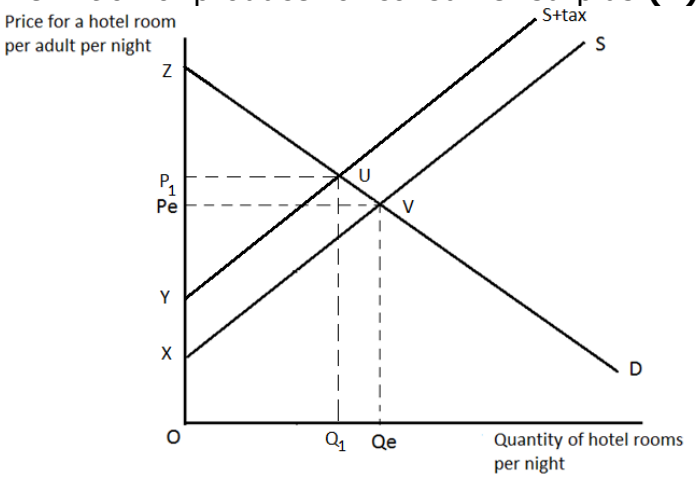
NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

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 C (1 mark)** **Explanation (up to 3 marks)** • Definition of PPF (the maximum combination of goods that can be produced with all available resources) **(1)** • Explanation that shows economic decline/ reduction in production potential/ reduction in GDP **(1)** • Application: Earthquake will destroy production potential **(1)** as there are less factories to work in/ less machines to produce output with **(1)** • The economy is efficient as it is using all of its available resources at points X and Y are both on the PPFs **(1)** **Rejection marks** **Do not double award** • Option A: immigration would see an increase in the supply of labour and therefore increase in productive potential/ more labour would lead a shift out of the production possibility frontier **(1)** • Option B: the discovery of new technology will make the production process quicker enabling more resources to be produced and increasing productive potential/ better technology would cause the PPF to shift out and not in **(1)** • Option D: redistributing resources from capital to consumer would see a movement along the PPF curve **(1)**	**(4)**

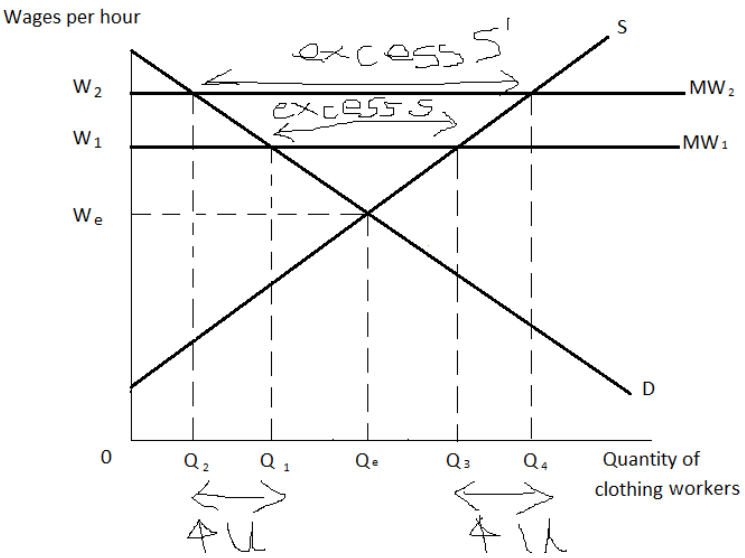
Question Number	Answer	Mark
2	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of a free market economy- (where the allocation of resources is decided by the price mechanism without government intervention) **(1)** • Identification of example of market failure where over provision may occur (negative externalities, imperfect information) / Identification that the inefficient allocation of resources is market failure **(1)** • Explanation of market failure (e.g. market does not take account of external costs so there is over production / some consumers lack information for example on problems of consuming a good so may over consume products) **(1)** • Example of product that might be over produced linked to external cost e.g. alcohol. Cigarette fuel, sugar, fats **(1)** • Diagram illustrating over production**-** e.g. external costs **(1)** **Rejection marks** **Do not double award** • Option A: a free market economy does not involve government intervention/ decisions are left to price mechanism **(1)** • Option C: the profit incentive is an advantage as it means scarce resources are not wasted **(1)** • Option D: the invisible hand leads firms to focus resources on products that are in demand to maximise profits which is an advantage of the free market **(1)**	**(4)**

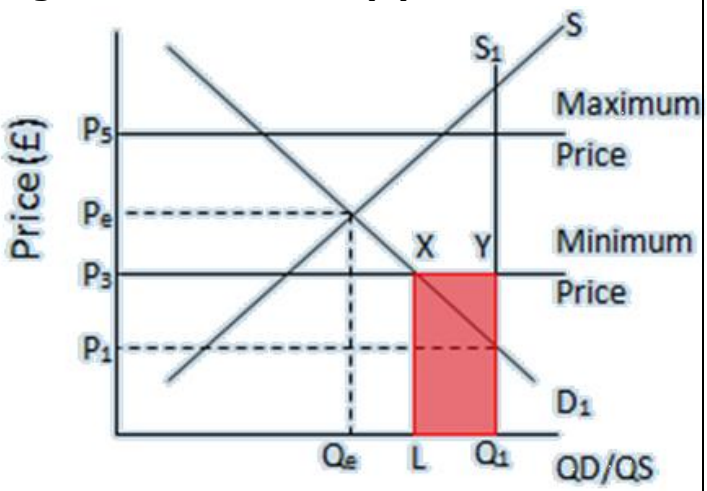
Question Number	Answer	Mark
3	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition or formula of income elasticity of demand (responsiveness of quantity demanded to a change in income) **(1)** • Identification of tobacco being a normal good in China **(1)** • Definition of a normal good (has a positive YED) **(1)** • Show calculation 10x0.9 = 9% **(1)** • As incomes rise in a country the quantity demand will rise by a smaller proportion / inelastic YED so the change in quantity of tobacco is smaller than change in income **(1)** **Rejection marks** **Do not double award** • Option A: 10 x 1.6= 16% increase in QD and not a decrease / the value of YED is positive for so demand would increase **(1)** • Option C: -10 x +0.43 = -4.3% which is a decrease not an increase in quantity demand / the value of YED is positive for so demand would increase **(1)** • Option D: 10 x 0.23 = 2.3% not 23%/ the change in income would need to be 100% to bring about a 23% increase in QD **(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of indirect tax (tax on expenditure/ consumption / paid by third party) **OR** Definition of producer or consumer surplus **(1)**  • Diagram/ explanation of shifting supply to left showing new equilibrium price and quantity **(1)** • Identification that consumer surplus falls from PeVZ to P_1UZ **(1)- must identify the change in area in explanation or explicitly on diagram** • Identification that producer surplus falls from PeVX to P_1UY **(1)** - **must identify the change in area in explanation or explicitly on diagram** **Rejection marks** **Do not double award** • Option B: the producer surplus falls from PeVX to P_1UY and does not rise **(1)** • Option C: the consumer surplus falls from PeVZ to P_1UZ and does not rise **(1)** • Option D: the consumer surplus falls from PeVZ to P_1UZ and does not rise/ the producer surplus falls from PeVX to P_1UY and does not rise **(1)**	**(4)**

Question Number	Answer	Mark
5	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of a public good (non-excludable and non-rival) **(1)** • Explanation of free-rider- where individuals will consume a good without paying as it is difficult to exclude them **(1)** • This makes it difficult for firms to make a profit out of the production of public goods **(1)** • By not providing lighthouses it will be a danger to boats and ships so the government steps in to provide them **(1)** **Rejection marks** **Do not double award** • Option A: the government will not want to increase external costs/the provision of a lighthouse could reduce external costs **(1)** • Option B: if the price mechanism allocated resources efficiently there would be no need for government intervention **(1)** • Option C: it is market failure where there would be an under provision of lighthouses which is why the government built the lighthouses **(1)**	**(4)**

Question Number	Answer	Mark
6	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition or formula for XED- responsiveness of Quantity Demanded of good x to a change in Price of good y/ %ΔQDx÷ %ΔPy **(1)** • Positive cross price elasticity means it is a substitute **(1)** • So when the price of bus journeys rises then the demand for taxi journeys will rise **(1)** • When choosing to make a journey customers can switch between using buses or taxis **(1)** **Rejection marks** **Do not double award** • Option A: motor vehicles and petrol are jointly demanded as you need petrol to run cars/ XED with be negative making them complements **(1)** • Option C: potatoes and aeroplanes are unrelated / XED will be zero (0) **(1)** • Option D: pens and paper are jointly demanded as you use pens to write on paper / the XED will be negative making them complements **(1)**	**(4)**

Question Number	Answer	Mark
7	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Minimum wage defined **(1)** • With minimum wage the quantity of labour demanded would fall from Q_1 to Q_2 / quantity of labour supplied would rise from Q_3 to Q_4 **(1)** • Unemployment / excess supply of labour was Q_3-Q_1 **(1)** and is now Q_4-Q_2 **(1)** or annotated on diagram • The minimum wage means the increase in unemployment is Q_4-Q_3 and Q_2-Q_1/ increase in unemployment is Q_4-Q_2 minus Q_3-Q_1 **(1)** or annotated on diagram • The higher minimum wage increases production costs and firms will lay off workers to offset costs **(1)**  **Rejection marks** **Do not double award** • Option A: it is excess supply and not excess demand/ at higher wages supply will extend and demand contract causing excess supply **(1)** • Option B: at higher wages firms will be less profitable so demand for labour contracts/ Quantity demanded falls from Q_1 to Q_2 **(1)** • Option C: the employment falls from Q_1 to Q_2 **(1)**	**(4)**

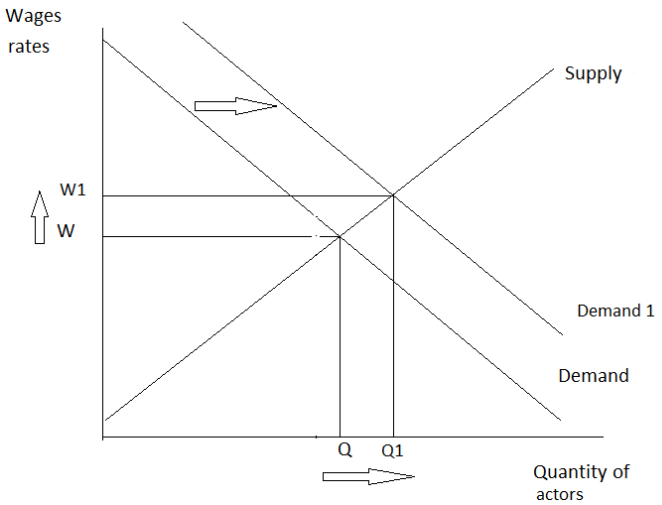
Question Number	Answer	Mark
8	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of government failure- where government intervention leads to a net welfare loss **(1)** • Agricultural stabilisation policies aim to stabilise producer incomes / stabilise the price of a commodity or agricultural product / the government will purchase stock when the price goes below the minimum price / sell stock when the price goes above the maximum price **(1)** • Government will then have to store and care for the crop which costs money / Admin costs will be involved in organising storage, purchase and sales **(1)** • If the admin costs exceed benefits of stabilisation then government failure **Reward buffer stock diagram/ guaranteed minimum price diagram that shows cost to government- in red (1)**  **Rejection marks** **Do not double award** • Option B: eliminating shortages and surpluses shows the government is helping the efficient running of the market **(1)** • Option C: this is wrong because price stability is the purpose of government intervention to help consumers and producers **(1)**	**(4)**

	• Option D: the stable price would encourage more investment which is not government failure **(1)**	

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)** • Explicit reference to Extract 1 (e.g revenue increased to $3.2 billion) **(1)** • Due to increased demand for New Zealand films the demand for labour will rise **(1)** • This is due to the demand for labour being derived from the demand for the final product **(1)** Diagrammatic analysis which shows: • A shift to the right of the demand curve for labour **(1)** • Original equilibrium wage and quantity **(1)** • New equilibrium wage and quantity **(1)**  	**(6)**

Question Number	Answer	Mark
9(b)	**Knowledge, application and analysis (Up to 4 marks)** • Definition of a positive statement: (one that is based on fact/ objective approach/ can be tested as true or false / value free/ Scientific approach to Economics **(1)** • Definition of a normative statement:(one that is based on a value judgement/ subjective approach/ cannot be tested as true or false/ non-scientific approach to Economics) **(1)** • Title which is normative statement: 'Multiplex Cinema prices are unfair to Indian consumers' **(2)** • Reference to positive statement within Extract 1. **(1)** **Do not accept examples from within extracts**	**(4)**

Question Number	Answer	Mark
9(c)		**(10)**
Knowledge, application and analysis – indicative content		
	• External benefits- positive impact on third parties not involved in a transaction Examples from data- • The films create an interest in the country and help to attract tourists. E.g. The Lord of the Rings and Hobbit films were produced in New Zealand and a significant number of tourists then travelled to the country to visit the locations from the films. This will increase employment and revenues for firms at these locations • Third party groups such as hotels in New Zealand are likely to benefit from higher occupancy/ with higher demand for hotels rooms the price may rise • With increased demand for visiting New Zealand third party groups such as companies selling flights to the country will benefit • Leisure/ tourist destinations/ restaurants will benefit from increased visitor numbers/ revenues • Increased tax revenues for the government from extra tourists • Diagram to illustrate the external benefit including welfare gain	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of external benefits from the film industry. 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 the effect of external benefits. 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 the external benefits of the film industry with appropriate 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

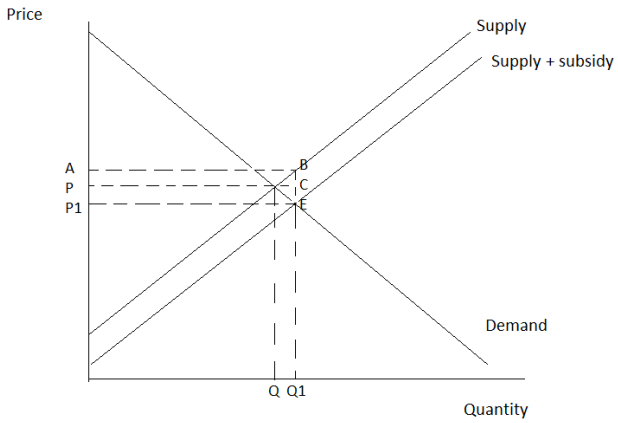
Evaluation – indicative content		
	• External costs may emerge such as tourists littering or damaging the environment/ more journeys via aeroplane/ damaging areas of natural beauty • Magnitude- the size of the external benefits depends on how many are attracted to visiting • Time lag- whilst it will attract tourists there might be a delay before they cost- especially given it is an island and having to travel by plane may make it more expensive • It so hard to determine whether more tourists are coming due to the films or other factors such as rising incomes • It is very difficult to quantify and give a monetary value to external benefits •	
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(d)		**(14)**
Knowledge, application and analysis – indicative content		
	• Maximum price is the highest price firms are able to charge customers • The recommendation is to introduce a maximum price at Rs120 • Currently customers have to spend Rs300 for a ticket at a multiplex on weekends- many cannot afford these prices • With such high prices multiplexes in Karnataka are on average less than 50% capacity • Firms are likely to use more of their capacity • The maximum price is likely to generate additional revenues for multiplex owners and keep the cinemas busy even during otherwise quiet times. • Allow relevant diagrammatic analysis • Reference to contraction supply and extension of demand • Reference to shortage	

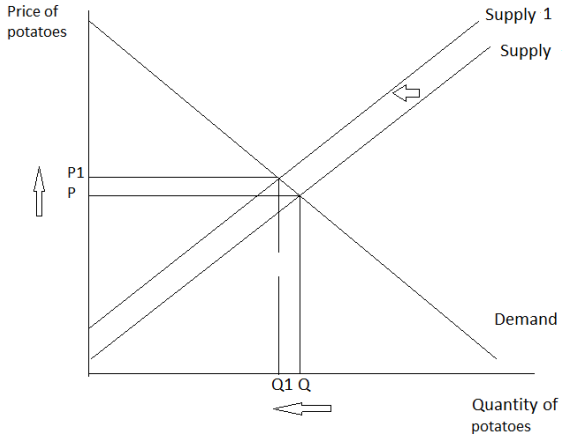
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of maximum price for multiplexes. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the impact of maximum price on multiplex cinemas. 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 impact of maximum price of multiplex cinemas. 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		
	• PED important as if inelastic the price reduction will see total revenue fall/ elastic rise • PES would be perfectly inelastic in the short run • Magnitude of maximum price is important – reference to Rs 180 or the percentage change • Time period: inflation may erode the maximum price and it will need reviewing • Whilst it makes it more affordable there will be less opportunity to find cinema is the shortage emerges • Enforcement- some multiplexes may not follow the pricing rules • Some multiplexes may earn their revenue in other ways for example through selling popcorn or drinks at a higher price • Corruption to avoid maximum price • Impact depends on household income	

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(e)		**(14)**
Knowledge, application and analysis – indicative content		
	• Subsidy- cash grant paid to encourage consumption/ production • This will lower the costs of production • Supply shifts to the right • Price falls (P to P1) for final product as costs to produce cinemas fall • Quantity rises (Q to Q1) as production of cinemas becomes cheaper than other activities • Cost of subsidy to the government (ABEP1) • Producer subsidy (ABCP) and consumer subsidy (CEP1P) • Producer surplus rises • Consumer surplus rises • Revenue from consumers rises **P x Q** to **P1 x Q1** • But they also receive revenue from government in terms of the subsidy- so total revenue will be A X Q1 Diagram  • Helps make cinemas affordable for more • Improved quality of cinema facilities • External benefits may also occur with better quality buildings and renovated buildings adding aesthetic beauty • Bollywood is one of the largest film producers in India /produced 252 films in 2014/ Bollywood is one of the biggest employers in the film industry / generated revenue of Rs35 billion in 2014- importance of films and getting more to watch Bollywood films supports economy	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of how subsidy will affect market 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 how subsidy will affect cinema market. 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 how subsidy will affect the cinema market. 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 size of subsidy- Rs5 000 000 for those building new cinemas and Rs2 500 000 for renovating old cinemas • Time lag- may take time before the cinemas are built and help lower prices/ time lag before payment made to firms • Opportunity costs- spending money on cinemas leaves less money for other purposes- e.g. education and health • Subsidy may not be used in right way and transferred to cinema operators' profits and not improving cinemas. • External costs- extra visitors may cause pollution, litter	
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(a)	**Knowledge, Application and Analysis (Up to 6 marks)** • Poor harvest reducing supply **(1)** • Crop affected by a wet spring and hot, dry weather/flooded field destroyed most of crop **(1)** • Potato disease destroy crops **(1)** Diagram  • Supply shift left **(1)** • Old equilibrium P and Q **(1)** • New equilibrium P1 and Q1 **(1)**	**(6)**

Question Number	Answer	Mark
10(b)	**Knowledge, Application and Analysis (Up to 4 marks)** • PED defined or formula **(1)** • Price elastic- the PED between -1 and – infinity **(1)** • Price inelastic- the PED between 0 and -1 **(1)** **Maximum 2 marks for definitions** • Diagrams to show elasticity **(1)** • Many customers became addicted to junk food and continued to buy even when prices of maize, rise and wheat fell **(1)** • Therefore even when price rises customers will continue to buy junk food **(1)** • Therefore the PED for junk food is likely to be inelastic **(1)**	**(4)**

Question Number	Answer	Mark
10(c)		**(10)**

Knowledge, application and analysis – indicative content

- Definition of external costs- negative impacts on third parties
- Market failure- inefficient allocation of resources
- Diagram illustrating external cost with welfare loss

- Processed "junk-food" is high in sugars, fats and salt
- The problem is that higher levels of obesity will costs health services money as more people need treatment for illness and disease. Costs to third parties e.g. tax payers
- Businesses suffer also as staff absence rises due to these health problems. Cost to businesses of staff shortages.
- Revenue for junk food companies rises
- Employment in junk food sector increases
- Junk food tends to have higher tax rates so government revenue may rise
- Addicted to these products shows demand inelastic- explains why demand does not fall when price of substitute falls.

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of external costs. 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 external costs in context of junk food. 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 external costs 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 of external costs – depends on how addicted to junk food they are
- Economic growth and development may raise incomes and this may reduce dependency on junk food
- Measurement of external costs difficult to quantify and give a monetary value to
- Short/ long run- may take time before external costs are realised

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 some reasoning.

Question Number	Answer	Mark
10(d)		**(14)**
Knowledge, application and analysis – indicative content		
	Wages risen to $11.33/ hour in 2015 Figure 1 – from 2012 to 2015 wages have increased. The increase was 2% in 2013, 3% in 2014 and approaching 5% in 2015 Causes of wage rise • The amount of labour available to work as agricultural workers on farms in the USA has fallen. • Lower supply of labour increases wages as there is contraction of demand for labour • Reduction in the number of migrants from Mexico means supply is low and wages will tend to rise if less people seek same job • Strengthened economy in the USA made it easier for people to find less exhausting work in other sectors such as service sector • Citizens in the USA are not keen to work on harvesting the crops and often do not last very long in the job so with less supply it is a further upward pressure on wages • Unemployment in Washington stood at 5.8%. This is low so have to offer higher wages to attract people • Reward accurate labelled diagram supporting explanation	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the causes of wage rise
2	4-6	Understanding of causes of wage rise in context of farming. 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 causes of wage rise in context of farming. 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		
	• Variation in wage changes- some areas like Washington offered much larger wage increases- may be more about local issues • Magnitude- size of change in number of migrants/ unemployment important • Short run and long run factors- migration issues may be temporary but wages rising for some time • The shortage of labour is reducing annual fruit and vegetable production by 9.5%, or $3.1 billion. By offering higher wages then this potentially higher output can be harvested • Generally the work is low skilled so it should be an occupation most unemployed could access. So offering higher wages will incentivise unemployed to move from benefits to employment • The change of government in US and how it might exacerbate labour shortages in agriculture over the next few years (magnitude issue)	

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		
	Providing accommodation • Reduce the cost of living • Make it cheaper to move to work on farms • People will not need to commute to work • People from other countries like Mexico will find it easier to move without the hassle of organising accommodation • This will increase the supply of wages to the sector • Reduce geographical immobility of labour as cost of moving lower Allowing more permits • Means a greater supply of labour from Mexico • Means people in Mexico have less of barrier to moving to work on the farms • Thus increasing the supply of labour to complete work in sector Offering medical and other benefits • People more willing to move locations as they have protection in case of medical problems • People more willing to move from occupations without such benefits. • The reward from working in the sector are relatively higher so attracting greater supply of labour Providing training opportunities • People more willing to move locations as they have better training opportunities • People more willing to move from occupations without such training opportunities • With more training people can complete the work more easily and find working in the sector more attractive • Accept relevant government policies or	

	employer actions	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of measures. 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 awareness of measures. 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 awareness of measures 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		
	Providing accommodation • Cost of putting the accommodation in place • Cost of maintenance of accommodation • May be basic and disappoint labour • Family ties may be more important • Despite accommodation backbreaking work may put people off • Depends on the number of accommodation units available • Depends on time it takes to build temporary accommodation Allowing more permits • Depends on the number of permits available • Depends on the time it takes to process permits • Numbers coming from Mexico has fallen in recent times • Those in Mexico may not want to move just for the harvesting season • Administrative costs of applying for and checking permits Offering medical and other benefits	

	• Adds to the costs of the business • May help keep workforce healthier- rising productivity • May attract lower skilled labour from other occupations without such benefits Providing training opportunities • May mean that they only work short term if they are trained and move to better occupations • Adds to costs of the business • Feel valued which may rise productivity	

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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