GradeMax



Mark Scheme (Results)

January 2018

Pearson Edexcel IAS
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.

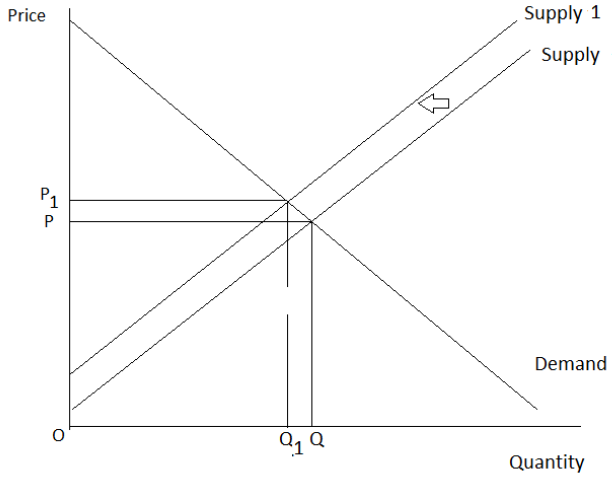
NB: Candidates may achieve up to 3 marks (rejected marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

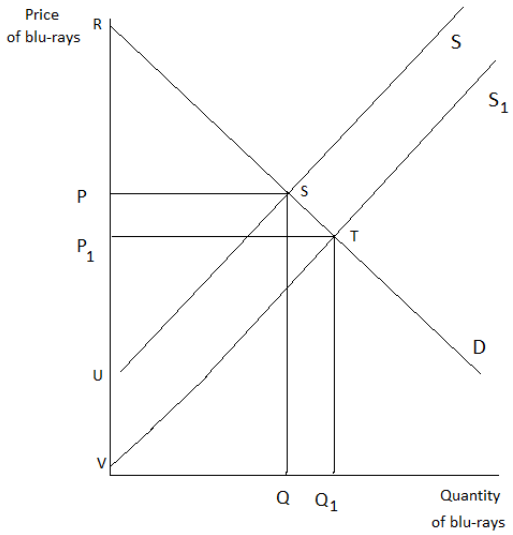
Question Number	Answer	Mark
1	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of renewable resources (resources that can be used again and again)/ Definition of non-renewable resources (resources that can be depleted and once used are not available) **(1)** • One relevant example of a renewable/non-renewable resource that must be from the table **(1)** • Non-renewable= 990.2+26.1= 1016.3 **(1)** • Renewable= 43.2+129.3+319.4= 491.9 **(1)** • Non-renewable higher by 1016.3-491.9= 524.4 **(1)** • May calculate the percentage renewable/ non-renewable (accept nuclear as either) to prove non-renewable is larger contribution than renewable **(1)** NB Nuclear may be classed as renewable meaning non-renewable is 990.2 and renewable (43.2+129.3+319.4+26.1=) 518 (1+1) **Rejection marks** **Do not double award** • Option A: renewable = 43.2+129.3+319.4= 491.9 (or 43.2+129.3+319.4+26.1= 518) which is less than non-renewable (1016.3) **(1)** • Option C: incorrect because all renewables increased e.g. hydro +4.9%, wind +33.5% and Solar +73.7%. (nuclear +29.9%) **(1)** • Option D: incorrect as all non-renewables increased coal, gas and coal +7.8% / +29.9% nuclear **(1)**	**(4)**

Question Number	Answer	Mark
2	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of division of labour/specialisation- (where people focus on the production of one product)/ Definition of PPF (shows the Maximum possible production using all available resources)**(1)** • For correctly identifying Grace's specialisation as gold rings and Fabio's specialisation as gold necklaces **(1)** • If Fabio spends half time on each 14+5=19, Grace- 15+15=30 Total production 19+30=49 / Gold necklaces 15+14=29 Gold rings 15+5=20 Total production 29+20=49 **(1+1)** • Total production increases to 28+30=58 when they specialise **(1)** • 58-49= 9 additional units produced **(1)** • Although 1 less necklace produced **(1)** • Any calculation of opportunity cost should be awarded **(1)** **Rejection marks** **Do not double award** • Option B: Grace can produce more of both goods/ Grace can produce up to 20 extra gold rings and up to 2 extra gold bracelets/ Fabio's PPF is below Grace's showing he is less productive at both **(1)** • Option C: if Fabio specialised in gold rings and Grace gold bracelets then output would be 10+30= 40 which is 9 less than if they split time **(1)** • Option D: output will be increased from 19+30=49 to 28+30=58 if they specialise so output increases not decreases **(1)**	**(4)**

Question Number	Answer	Mark
3	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of indirect tax (tax on expenditure/ paid through third party) **(1)** • Identification of the tax as an ad valorem tax at 14.5% **(1)** • Introduction of tax increases costs so supply shifts left **(1)** • Ad valorem taxes sees supply pivot/ it is not a parallel shift/ the amount of the tax increases as the price of burgers increases **(1)** • Correct annotation of diagram to show price and quantity changes on **diagram A (1)** NB reward if they do this by redrawing diagram **Rejection marks** **Do not double award** • Option B: this is a specific tax where the tax would be given as a specific amount e.g. 50p **(1)** • Option C: this shows the impact of a subsidy/ a tax caused a leftwards and not rightwards shift/ this is not supply shifting as a percentage **(1)** • Option D: this shows where demand falls which could be caused by lower incomes/ changed taste against the product/ indirect taxes affect the costs of firms and shift supply not demand **(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of rational consumers/ irrational consumers **(1)** • To maximise utility consumers would be able to benefit by up to €360 by switching supplier/ by switching energy suppliers consumers can save up to €360 a year **(1)** • Being poor at computation they are unable to calculate the likely benefit from each option/ unable to calculate the additional costs associated with current provider **(1)** • For explaining an alternative reason consumers do not switch **(1)** **Rejection marks** **Do not double award** • Option A: if customers do not feel valued they would be more likely to switch **(1)** • Option B: if customers had symmetric information they would know they will save €360 and be willing to switch/ the decision not to switch may be more likely caused by asymmetric information **(1)** • Option C: free riders exist for public goods that have non-excludability and non-rivalry as consumers can consume without paying/ Free rider problems occurs with public goods and electricity is not a public good **(1)**	**(4)**

Question Number	Answer	Mark
5	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of a free market economy (where resources in economy allocated by price mechanism)/ Definition of price mechanism (forces of supply and demand allocate resources)**(1)** • Rationing is about allowing prices to rise so only those with most income can afford **(1)** • Credit for relevant diagram for showing shift in supply **(1)**, decreased quantity and increased price **(1)**  **Rejection marks** **Do not double award** • Option A: if the price of a good falls the profit is likely to fall so there is less incentive to increase production/ firms are likely to reduce production **(1)** • Option B: Governments are not involved in the allocation of resources in the free market economy/ governments are involved in command or mixed economy **(1)** • Option C: it is not a function of the price mechanism to provide goods for free **(1)**	**(4)**

Question Number	Answer	Mark
6	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of consumer surplus (difference between price willing to pay and price they actually pay/ difference between demand curve and price)/ Definition of producer surplus (difference between price willing to sell at and price they actually sell at/ difference between supply curve and price) **(1)** • Diagram showing rise in supply **and** new equilibrium **(1)** • Showing change in consumer surplus from PRS to P_1RT/ change by area PP_1TS **(1)** • Showing change in producer surplus PSU to P_1TV **(1)**  **Rejection marks** **Do not double award** • Option A: people would switch to the substitute reducing demand for blu-ray discs, consumer surplus and producer surplus would fall **(1)** • Option B: Rising costs would see supply shift left, demand contract and producer surplus and consumer surplus would fall **(1)** • Option D: a rise in the price of the complement such as blu-ray players will reduce demand for the complementary product causing consumer and producer surplus would fall **(1)** • **NB rejection may use diagrams to illustrate**	**(4)**

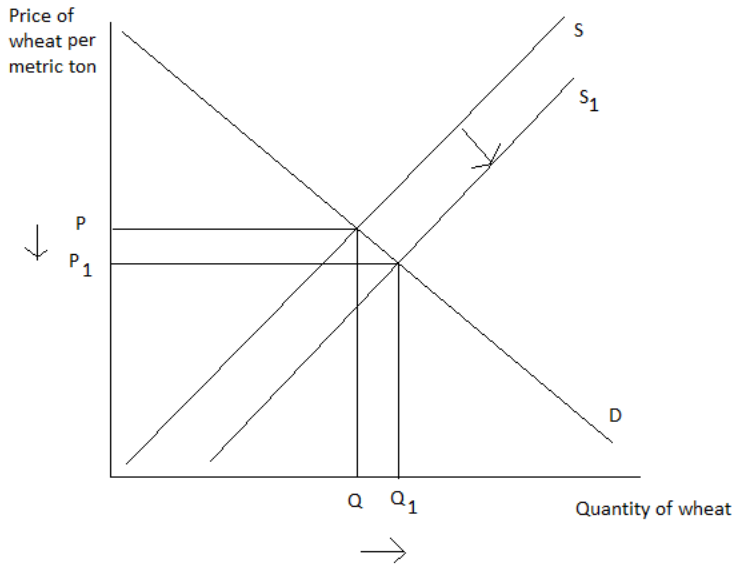
Question Number	Answer	Mark
7	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of buffer stock (a scheme which buys and sells stock to keep price between floor and ceiling price)/ Reasons for buffer stock- to stabilise prices **(1)** • Price P_2 is the ceiling price and the government will sell from its buffer to prevent price rising **(1)** • Government revenue will be P_2xQ_2-Q_3 from selling maize **/** government will earn revenue as selling from buffer stock **(1)** **Rejection marks** **Do not double award** • Option A: the price is too high and the government buying will further raise the price/ Government will sell stock to lower the price **(1)** • Option B: the price is too high and the government buying will further raise the price/ the maximum price is P_2 so they will not go to the higher price of P_3/ Government will sell stock and earn revenue **(1)** • Option C: the ceiling price is P_2 and the government will not sell at the higher price P_3 **(1)**	**(4)**

Question Number	Answer	Mark
8	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of mixed economy- (where the government and price mechanism allocate resources) **/** Definition of government failure (where the government intervention leads to a net welfare loss/ misallocation of resources) **(1)** • Regulation are government rules aimed to controlling activity **(1)** • To meet these laws it may costs firms in terms of paperwork/ excessive costs caused by regulation **(1)** • Costs of implementation of health and safety regulations greater then benefits of regulation then government failure **(1)** **Rejection marks** **Do not double award** • Option A: this is an example of a market failure as there are positive externalities where the market will under provide vaccinations/ by ignoring gains from vaccinations there is a potential welfare gain **(1)** • Option B: this would be the market being used to correct market failure **(1)** • Option D: This is the market working to allocate resources efficiently **(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

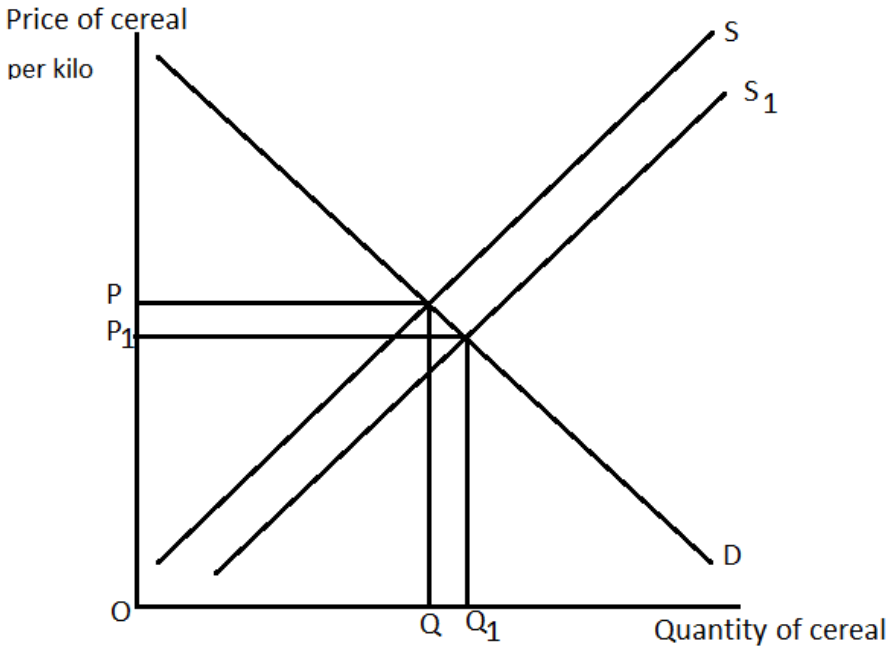
Question Number	Answer	Mark
9(a)	**Knowledge, Application and Analysis (up to 6 marks)** • Explicit reference to Extract 1 (e.g. price falls from US$305.50 to US$127.90) **(1)** • Good harvests in three of the world's largest growers, Russia, Canada and the USA/ In the USA the winter wheat harvest 21% up from 2015 **(1)** • After extensive planting/ good weather **(1)** Diagrammatic analysis which shows: • Original equilibrium price and quantity **(1)** • A shift to the right of the supply curve **(1)** • New equilibrium price and quantity **(1)**  	**(6)**

Question Number	Answer	Mark
9(b)	**Knowledge, Application and Analysis (Up to 4 marks)** • Definition or formula for PES / Inelastic supply- PES less than 1 / Elastic supply- PES greater than 1 **(1)** • 'were running out of room to store the crop'- large amounts of stock in storage to be able to respond to changes in price making it elastic **(1)** • 'it takes about 6 months for wheat to grow'- if price rose it will take time to grow so could be inelastic **(1)** • 2 wheat harvests a year - so making supply more price elastic **(1)**	**(4)**

Question Number	Answer	Mark
9(c)		**(14)**

Knowledge, application and analysis – indicative content

- Reference to data in terms of price change
- A decrease in the price of wheat should help producers of breakfast cereals reduce their production costs.
- Supply of breakfast cereals rises and demand extends
- Profits/ producer surplus rises
- More able to lower price
- Cereal producers may substitute to wheat from other grains



- Employment within breakfast cereal manufacturing may increase
- Investment may increase as the industry becomes more profitable
- New entrants attracted by additional profits

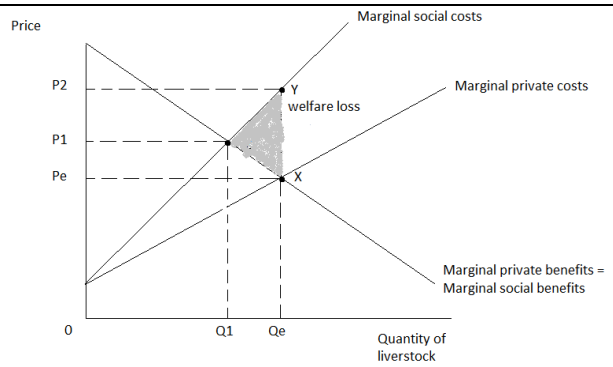
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the impact of the fall in the price of wheat on cereal manufacturers. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.

2	4-6	Understanding of the impact of the fall in the price of wheat on cereal manufacturers. 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 the fall in the price of wheat on cereal manufacturers. 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	
	• Grain only makes up 3% of the cost of cereal/ other costs more significant • With heavy advertising and branding breakfast cereal manufacturers find the demand for cereals is relatively inelastic- so firms are not likely to lower price as likely response is reduced total revenue • Much of the 67kg of wheat consumed on average goes on breakfast cereal- magnitude of impact • Depends on relative price of different grains • Not all breakfast cereals contain wheat • Long term effect prices falling since 2013/ in the short term future prices may rise • Impact of an increase in supply may increase or decrease a firms revenue and profits depending on the PED of breakfast cereals

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)		**(14)**
Knowledge, application and analysis – indicative content		
	• External costs- negative impacts on third parties • Market failure- defined or explained • Water and land are lost to wheat production- reducing wheat production- less available to consumers • trees are cut down to make land for grazing- meaning less trees to provide oxygen, damages environment/ habitat for animals • untreated animal waste pollutes rivers and streams- costing water companies and fishing industry • One report stated that 51% of greenhouse-gas emissions are caused by animal agriculture, which can increase the worlds temperatures • It takes 100 times more water to produce meat than wheat. This may make water more scarce • Producing just one meat burger uses enough fossil fuel to drive a small car 20 miles. The emissions here may have a negative impact on health- costing health services • A typical pig farm generates the same amount of raw waste as a city of 12 000 people. This can have an impact on the smell in the environment having a negative impact on those living nearby • The meat industry is directly responsible for 85% of all soil erosion in the USA. • Livestock may have added value- enabling firms to generate more revenue and profit • Increased supply of meat will help lower price for consumers • Reward for accurate external cost diagram	



- Showing correct marginal cost and revenue curves
- Showing Market Equilibrium PeQe
- Showing Social Optimum P_1Q_1
- Showing the welfare loss

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of external costs 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 external costs will affect the 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 external costs will affect the 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		

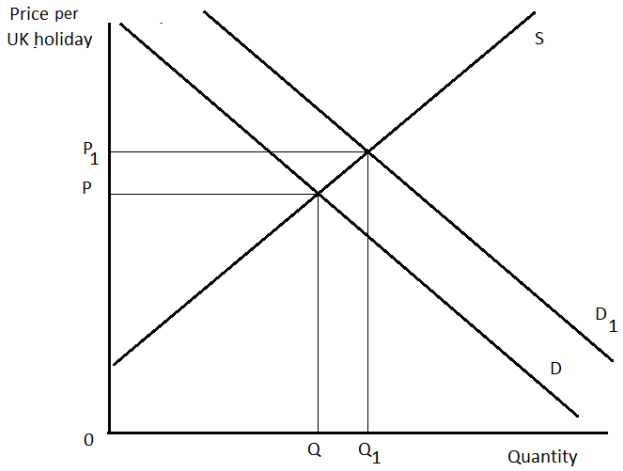
- Magnitude- depends on number that switch to livestock
- Time lag- may take time for external costs to emerge
- (External) benefits- manure can be used to fertilise crops
- Measurement problem- difficult to measure external costs

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
9(e)		**(10)**
Knowledge, application and analysis – indicative content		
	Indirect tax • increases costs • supply falls • price rises • quantity falls • tax revenue earned can be used for health services • internalises external costs Indirect tax may be for meat based products Regulation • limit the amount of livestock • help minimise external costs • raise cost of livestock production • limits on water use, trees being cut down Subsidise grain crop production • lowers costs • increase supply • substitute from livestock to gain crops • lower quantity and therefore external costs Minimum pricing for meat based products • cause price to rise • quantity demanded fall/ discourage consumption of meat • may actually cause supply to rise Advertise health benefits of being a vegetarian; provide more info to consumers on external costs of meat production • Providing information fills information gaps • This may encourage demand for meat to fall • People switch to vegetarian options instead Accept tradeable permit in context	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of measures to reduce 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 measures to reduce external costs. 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 measures to reduce external costs 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		
	• Some doubt the ability to enforce regulation. • What limits should be set • Tax would need to be a very high level to affect consumption • Depends on size of tax • Magnitude of subsidy • Opportunity costs of subsidy • Benefits of meat consumption • Given that livestock farming is a world-wide industry how can any individual government introduce policies that could have any meaningful effect. Any measure they could take would only put their individual farmers at a competitive disadvantage. • Only measures taken on a world-wide basis would be relevant and that is not going to happen	
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(a)	**Knowledge, Application and Analysis (Up to 6 marks):** • YED= % Δ Q_D/%ΔY **(1)** • Identification income elastic/ luxury good/ normal good **NB** diagram used to show relationship between income and quantity demanded/ YED is positive/ as income rises quantity demand rises **(1)** • In Ireland the economy GDP per capita / income growth was 7.3%/ the YED is +1.72 **(1)** • 1.72 x 7.3 = 12.55% **(1)** rise in quantity demanded for UK • Diagram- original equilibrium **(1)** correct shift in demand **(1)**, new equilibrium **(1)**  	**(6)**

Question Number	Answer	Mark
10(b)	**Knowledge, Application and Analysis (up to 4 marks)** • Definition or formula of PED/ Price elastic- the PED between -1 and –infinity/ Price inelastic- the PED between 0 and -1 **(1)** • For those in Spain/ Ireland PED is elastic **(1)** at -1.38 and -1.86 **(1)** • For those in France, Germany, The Netherlands, USA it is inelastic **(1)** -0.53, -0.33, -0.61, **-**0.42 **(1)** • PED varies depending on the country people travel from **(1)**	**(4)**

Question Number	Answer	Mark
10(c)		**(14)**

Knowledge, application and analysis – indicative content

- Definition of external costs- negative impacts on third parties
- Market failure- inefficient allocation of resources
- Over consumption
- Leading to welfare loss
- Damage to endangered coral reefs – which is not paid for by tourism industry.
- Marine life negatively impacted by damage to ecosystem which may worsen what tourists can see may cause visual pollution
- Loss of income to fishing industry if marine life is damaged
- Environmental damage is being caused by 60 speedboats per day which cause noise pollution, air pollution
- Tourist companies anchor boats on the corals, tourist walk on coral, tourists collect coral- if coral is damaged people will not be attracted to return having negative impact on tourism
- All these activities negatively impact the marine ecosystem and cause deterioration in the natural environment.
- About 80% of the coral reefs in the area have suffered damage

Reward use of diagram

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	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	4-6	Understanding of external costs in context of Maldives. 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 external costs with effective application to 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 of external costs – depends on the extent of the damage • Economic growth and development may raise incomes and this may help fund protection of environment • Measurement of external costs difficult to quantify • Short/ long run- may take time before external costs are realised • External benefits may exist /may offset external costs • Government policy should help reduce environmental damage	

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(d)		**(10)**
Knowledge, application and analysis – indicative content		
	regulation • limits set on number of tourists/ where tourists can go • less people will cause less damage to coral and eco-system • fines can be charged to those that cause damage tourist tax • increases costs • supply falls • price rises • quantity falls • tax revenue earned for environmental protection/ clean up • internalises external costs subsidising eco-tourism • lowers costs • supply rises • price falls • quantity rises • more eco-tourism so less environmental damage Reward relevant diagram- e.g. subsidy or tax as appropriate Reward reference to other policies such as providing information on environmental damage	

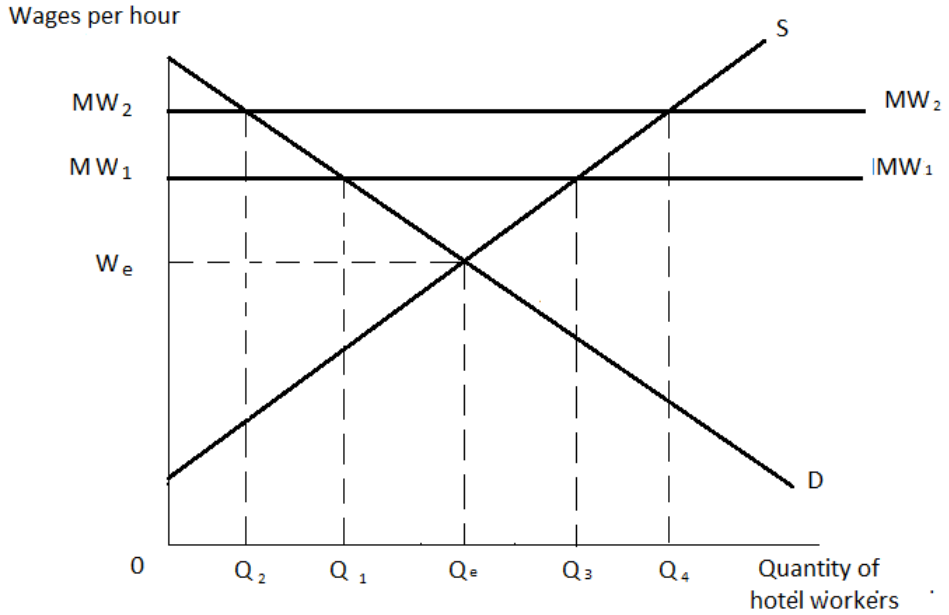
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of measures to reduce external costs. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	3-4	Understanding of measures to reduce external costs. 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 measures to reduce external costs. 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		
	• Some doubt the ability to enforce the regulation – some businesses and tourists may ignore any restrictions • What number of tourists should the limit be set • Tax would need to be a very high level to affect wealthy • Depends on size of tax • Magnitude of subsidy • Opportunity costs of subsidy • Eco-tourism may increase numbers and damage environment still	
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(e)		**(14)**
Knowledge, application and analysis – indicative content		

- Definition of minimum wage- wage floor/ lowest wage employees can be paid
- Government failure- where government intervention leads to net welfare loss

Diagram



Accept diagram linked to rising costs for hotels

- Showing minimum wage rising
- Showing contraction in demand for labour Q1-Q2
- Showing extension of supply Q4-Q3
- Showing rise in unemployment Q4-Q3, Q1-Q2

- Minimum wages increased from $9 to $15 and affected 3 000 hotel workers
- Hotel owners warned the increase would force them to cut staff and services leading to unemployment in the hotel industry
- Reduced investment and higher prices may limit future demand
- Because of the increase, Holiday Inn Los Angeles, had to lay off seven employees, cutting staff to 95 full-time and part-time workers
- Many hotels have chosen to absorb the increase in wages by increasing restaurant food prices by 15% to 30%.
- Living standards of hotel workers
- Wage differentials with other workers in the industry
- Incentive to work

NB Credit for the positives or negatives of minimum wage as KAA and the reverse as evaluation

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of minimum wage. 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 minimum wage in context. 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 minimum wage with effective application to 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		
	• Comment on the significance of increase in minimum wage- determine how much of an impact increased from $9 to $15 • Only seven employees made redundant in one hotel • Depends whether the minimum wage is binding • Different impacts on different hotels • After the minimum wage increased the economy has grown and with rising incomes, hotels have found a higher number of customers occupying its rooms • Investment in new hotels is still continuing • Workers benefited from higher earnings and many who had second jobs were able to stop working these • One hotel worker commented that he now gets to 'spend quality time with my kids'. Utility gained from more leisure time	

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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