

Mark Scheme (Results)

Summer 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).

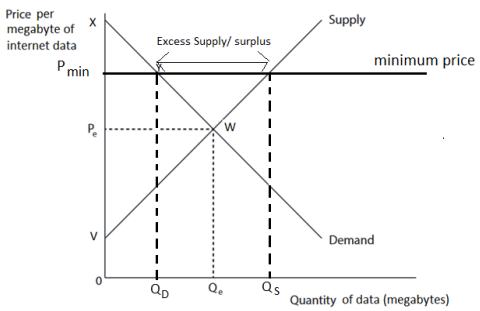
Question Number	Answer	Mark
1	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of mixed economy – e.g. price mechanism and government allocates resources/ public and private sector **(1)** • Identification of public goods **(1)** • Explanation of free rider- where people can consume the product without contributing OR firms cannot generate profit from selling public goods **(1)** so government intervenes to provide the product to ensure the public good is available to consumers **(1)** • Examples include street lights/ flood defences… **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as external benefits are under consumed and the government would want to encourage consumption/ Government would encourage production by providing subsidies not indirect taxes **(1)** • Option B: incorrect as subsidies would encourage production and the government would want to discourage consumption / to discourage consumption the government would charge indirect taxes **(1)** • Option C: incorrect as a maximum price is the highest a firm can charge and therefore prices must remain below it **(1)**	**(4)**

Question Number	Answer	Mark
2	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of renewable- resources that can be used again and again/ not depleted **OR** • Definition of non-renewable- resources that cannot be used again and again/ are depleted **(1)** • Application: 2006 4.3%+3%+16.9%+2.4%=26.6% **(1)** • 2016 2.9%+3.7%+25.0%+20.7%=52.3% **(1)** • Change between 2006 and 2016 52.3%-26.6%=25.7 percentage-points **(1)** **Calculations to show use of non-renewables have decreased to be awarded 1+1** **Rejection marks** **Do not double award** • Option A: incorrect because in 2006 non-renewable was 73.4% and in 2016 non-renewable was 47.7% **(1)** • Option C: Hydro power has declined from 4.3% to 2.9% **(1)** • Option D: All of percentage shares decreased not increased **(1)**	**(4)**

Question Number	Answer	Mark
3	**Answer C (1 mark)** • Explanation of medium of exchange- Any item that is widely accepted in exchange for the goods and services/ enables trade of goods and services **(1)** • Without money individuals would have to barter **(1)** they would have to find someone to exchange one good for another good that they want **(1)** • Helps to eliminate the double coincidence of wants **(1)** • Rarely is there double coincidence of wants in that person with good A wants good B and person with good B wants good A **(1)** • However, if they traded for money they could then find other goods that they wish to purchase and not have to worry whether they wanted the good being exchanged **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as we assume rational consumers maximise utility and not minimise utility **(1)** • Option B: incorrect as it facilitates specialisation/ this is about the division of tasks in production **(1)** • Option D: incorrect as consumers feeling valued is a reason that they do not always act rationally/ maximise utility **(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition or formula of price elasticity of demand- responsiveness of quantity demanded to a change in price/ • Definition or formula of income elasticity of demand- responsiveness of quantity demanded to a change in income/ • Definition of relatively price inelastic- a price elasticity between 0 and -1/ • Definition of normal good- where the income elasticity if demand is positive **(1)** **1 mark for definitions** • The higher the value the most responsive as it is closer to being elastic/ -0.62 is the higher value making it the most elastic and responsive **(1)** • Milk is a normal good as its value is 0.43 which is positive **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as whilst fruit is a normal good it has relatively price inelastic demand as its value is between 0 and -1 **(1)** • Option B: incorrect as an inferior goods has a negative sign and all these products have a positive value **(1)** • Option C: incorrect as rice has the most income inelastic demand at 0.02 which is less than 0.26 **(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 electricity suppliers to save up to AUD$600 **(1)** • Habitual behaviour- where consumers continue to do something because they have always done it in the past **or** explanation e.g. The customers remain loyal to their current provider having used them for a period of time. **(1)** **Rejection marks** **Do not double award** • Option B: incorrect as if consumers were good at computation they would change suppliers to save money/ calculate that they would benefit by AUD$600 by switching and would change electricity suppliers **(1)** • Option C: if consumers have perfect knowledge they are more likely to act rationally and switch **(1)** • Option D: incorrect as if consumers did not feel valued by current providers they are more likely to switch to other providers **(1)**	**(4)**

Question Number	Answer	Mark
6	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of minimum price- the price floor below which price cannot fall **OR** Motives for introducing minimum price- to avoid price being too low for some producers to operate/ protect income of suppliers **(1)** • Definition of excess supply- where quantity supplied is greater than quantity demanded **OR** Definition of consumer surplus **(1)** Maximum of 2 marks for diagram to include: • Diagram with minimum price above market price **(1)** • Diagram with new quantity supplied (Q_S) and quantity demanded (Q_D) **(1)** • Extension of supply and contraction of demand **(1)** • Diagram to show excess supply/ surplus **(1)** • Consumer surplus falls from P_eWX to $P_{min}XY$ / Change in consumer surplus **(1)**  **Or** alternative written explanation: • as the minimum price would be above the equilibrium Pe **(1)** • quantity demanded will fall and quantity supplied will increase **(1)** • Extension of supply and contraction of demand **(1)** • excess supply results **(1)** • consumer surplus falls **(1)** **Rejection marks** **Do not double award** • Option A: incorrect since consumer surplus falls which means it does not stay the same **(1)** • Option B: incorrect since consumer surplus falls from P_eWX to $P_{min}XY$ and does not rise **(1)** • Option C: incorrect as quantity supplied is above quantity demanded so we have excess supply and not demand **(1)**	**(4)**

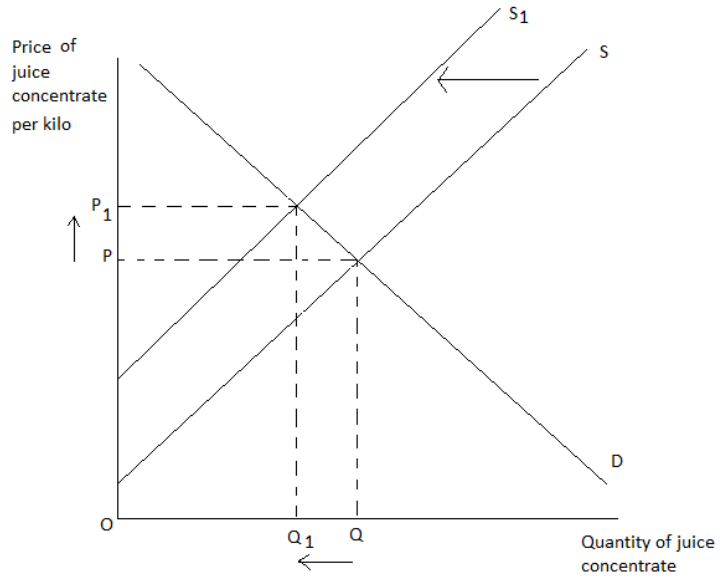
Question Number	Answer	Mark
7	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of tradable pollution permit scheme- where firms are given permits equal to the amount they are able to pollute / firms can buy and sell permits **(1)** • The profit incentive of being able to sell permits encourages firms to reduce carbon emissions **(1)** • If too many permits are issued then firms are likely to have excess to sell but few firms will need to buy permits so the price will fall so limiting the effectiveness of the scheme/ leading to higher levels of eternal costs **(1)** **Rejection marks** **Do not double award** • Option B: incorrect as this is the aim of the scheme to encourage firms to reduce pollution in order to be able to sell permits at a profit/ benefit of the scheme in reducing external costs **(1)** • Option C: more inefficient firms will struggle to reduce emissions and will have to purchase permits which is the scheme operating effectively **(1)** • Option D: tradable permits schemes do not involve fines for carbon emissions/ if they pollute above their allocated permits they would need to purchase permits **(1)**	**(4)**

Question Number	Answer	Mark
8	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of imperfect information or asymmetric information - where consumers lack information/ when one party has more information than another party **(1)** • People do not realise the cost of living in retirement and may under invest in pension or savings **(1)** • This is an example of market failure as there is a misallocation of resources as too little is invested in to pensions/savings **(1)** • Pension schemes are contributed to through a working life and then paid upon retirement **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as the consumer may have the information but are choosing not to act upon it **(1)** • Option B: incorrect as this connects to a different market failure- under provision of public goods where people use lighthouses without paying for them **(1)** • Option D: incorrect as this is a government failure / there are unintended outcomes from attempts to reduce cigarette smoking **(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 price of orange juice concentrate risen over $4 per kilo **(1)** • Brazilian orange harvest decreased by 20%/ Florida decreased 25%/poor harvest **(1)** • Affected by a tree-killing bug/ heavy rains **(1)** • More fruit needed to make one kilo of concentrate **(1)** Diagrammatic analysis which shows: • a shift to the left of the supply curve **(1)** • original equilibrium price and quantity **(1)** • new equilibrium showing higher price and lower quantity **(1)**  	**(6)**

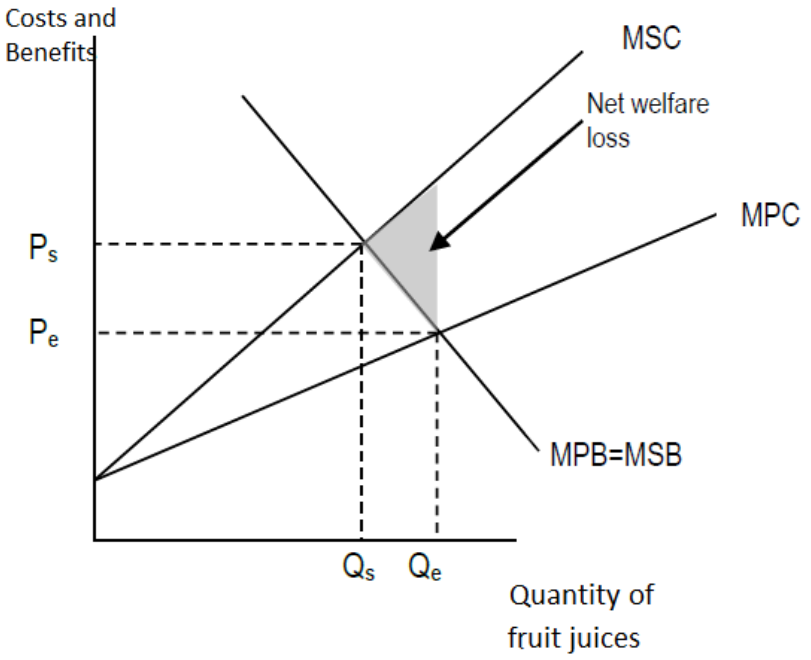
Question Number	Answer	Mark
9(b)	**Knowledge, application and analysis** **Up to 4 marks:** • Orange juice and bottled water will be substitutes **(1)** • Substitutes have positive XED/meet the same needs/ can be consumed in place of each other **(1)** • So people will switch from relatively more expensive orange juice to bottled water **(1)** • Price increase/may employ more people due to derived demand/may increase revenue, producer surplus/profit **(1)** Accept reference to complements where the candidate plausibly explains how they might be complements	**(4)**

Question Number	Answer	Mark
9(c)		**(10)**
Knowledge, application and analysis – indicative content		
	• Definition of PES- responsiveness of QS to a change in price OR %ΔQS/%ΔP • Define price inelastic supply: where the quantity supplied is less responsive to changes in price/where the PES<1 OR price elastic supply where the quantity supplied is more responsive to changes in price/where the PES>1 • Several years of poor harvests mean stocks of frozen juice built up in better years were running out shows supply is inelastic as cannot adjust quantity in response to changing prices • In Brazil they harvest 8 months of the year, shows supply may be elastic as they can harvest for most of year to respond to higher prices (Candidates may refer to 8 months as a long time to grow as suggesting PES is inelastic) • In Florida PES likely to be inelastic as they only harvest for 3 months a year so more difficult for supply to respond to a change in price (Candidates may refer to 3 months as a short time to grow as suggesting PES is elastic) • Diagram showing relatively inelastic/elastic supply curve	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of PES. A diagram may be offered and inaccurate. 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 PES context of fruit juice. 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 PES in the context of fruit juices. 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		
	May argue one type of elasticity as KAA and the other as EV. • Firms substituting to other production may reduce ability for supply to respond to a change in price • Short run- likely to be relatively inelastic as difficult to adjust factors but long run- likely to be elastic as firms can adjust factors of production • Tree killing bug may make it difficult to increase production in response to rising prices • Weather can influence elasticity- heavy rains means higher water content so need more oranges to make each litre of juice.	

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		
	• Define external costs- costs to third parties not involved in a transaction Economic effects- negative • using chemical fertilisers which have contributed to soil erosion - overuse of the land could mean that the land become unusable for farmers and third parties • using chemical fertilisers which have … polluted the water supply could affect the consumers of drinking water. • 62.7 litres of water needed to grow one orange – land starting to deteriorate- makes it difficult for other farmers to grow crops. • Explain how third parties are negatively affected • Diagram to show external costs may be offered:  	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the external costs of orange juice production 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 external costs of orange juice production. This will 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 external costs of orange juice production. 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 – depends on how many oranges produced- Florida and Brazil 2 biggest suppliers so significant impact • Measurement issue measuring the size of the external costs/difficult to quantify and give a monetary value to external costs • Time period: may take time for build-up of external costs • Fruit juices are likely to generate health benefits and lead to less need for healthcare- external benefit • More output means more revenue might be earned • Uses significantly more water than for tomatoes or strawberry production	

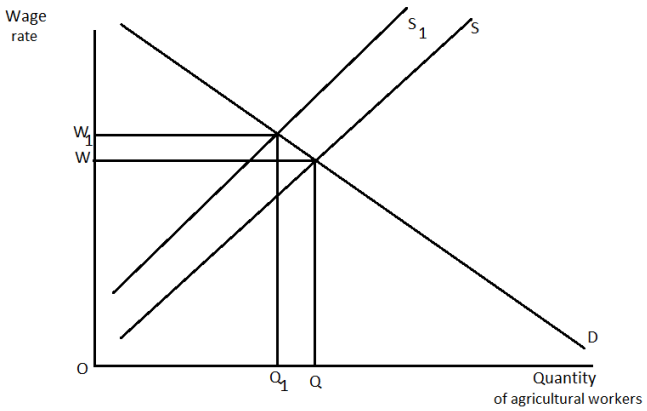
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some reasoning and application to context.
3	5-6	For well developed evaluative comments supported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

Question Number	Answer	Mark
9(e)		**(14)**
Knowledge, application and analysis – indicative content		
	• Definition of indirect tax- charge on expenditure/ via third party Producers • Increases costs for producers • Reduces supply of sugary drinks as indirect tax reduces profits • Increases price • (likely to be drawn diagrammatically) • Decreased producer surplus • Producer incidence to tax • May substitute to lower sugar alternatives • Workers become more productive if sugar consumption/ obesity falls Consumers • Increases price- making sugary drinks less affordable • Decreases quantity consumed • Consumers will reap more health benefits if they substitute to fruit/milk or yoghurt based drinks- vitamins, minerals • Consumers will have less health issues- diabetes/ obesity – may link to external benefits • Decreased consumer surplus • Consumer incidence of tax Government • Revenue for Government from tax • Government can use funds to tackle obesity in schools through sports and other programmes • Less money will be needed to tackle obesity and diabetes	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effect of indirect tax on consumer, producer and/ or Government. 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 effect of indirect tax on consumer, producer and/ or Government. 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 indirect tax on consumer, producer and Government offering detailed explanations of them and 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		
	• Magnitude- depends on size of tax • England use it to reduce obesity what about other countries? • Incidence of indirect tax – depends on elasticity of demand • 3.7 million cases of obesity could be prevented by 2025- magnitude of impact	

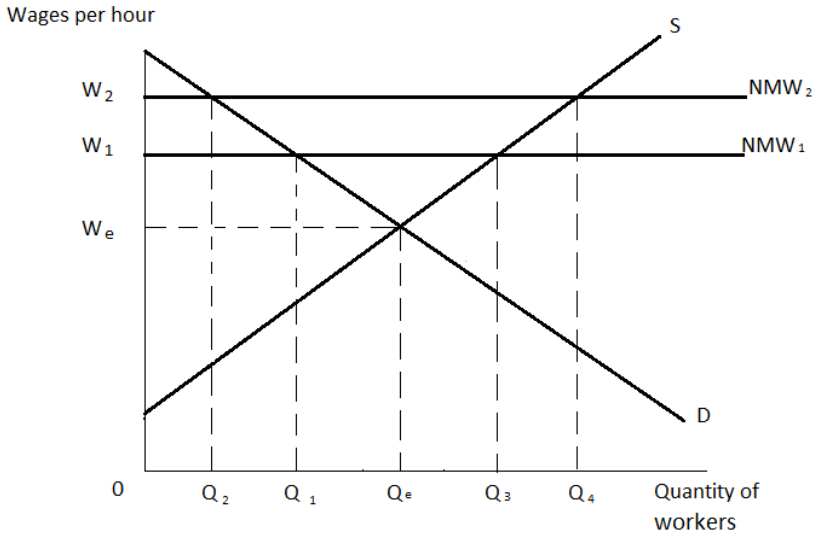
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

Question Number	Answer	Mark
10(a)	**Knowledge, application and analysis** **Up to 3 marks for any of the following:** • Less people seeking employment in agricultural sector **(1)** • Workers not willing to complete such physically challenging work **(1)** • Workers not willing to move to rural location for agricultural work **(1)** • Rural population declining/ ageing **(1)** • Long hours compared to other sectors means supply is limited **(1)** • 59 200 to 113 800 job vacancies unfilled/44.8 hours compared to 35.9 hours average **(1)** **Up to 3 marks for the diagram** **Diagram showing supply falling** • Original equilibrium **(1)** • Shift **(1)** • New equilibrium **(1)**  	**(6)**

Question Number	Answer	Mark
10(b)	**Knowledge, application and analysis** **Up to 2 marks for definition** • Definition of geographical immobility of labour-inability of people to move locations **(1)** for employment/work **(1)** **Up to 2 marks for data reference** • Vacancies exist for agricultural workers **(1)** • Workers in urban areas not willing to travel to rural locations **(1)** where job exists. **(1)** • In Australia workers find themselves unemployed in one city **(1)** but vacancies exist elsewhere as unemployed cannot move to the jobs **(1)** • UK will find workers more immobile if workers from other EU countries **(1)** cannot move to the UK to fill vacancies **(1)**	**(4)**

Question Number	Answer	Mark
10(c)		**(14)**
Knowledge, application and analysis – indicative content		

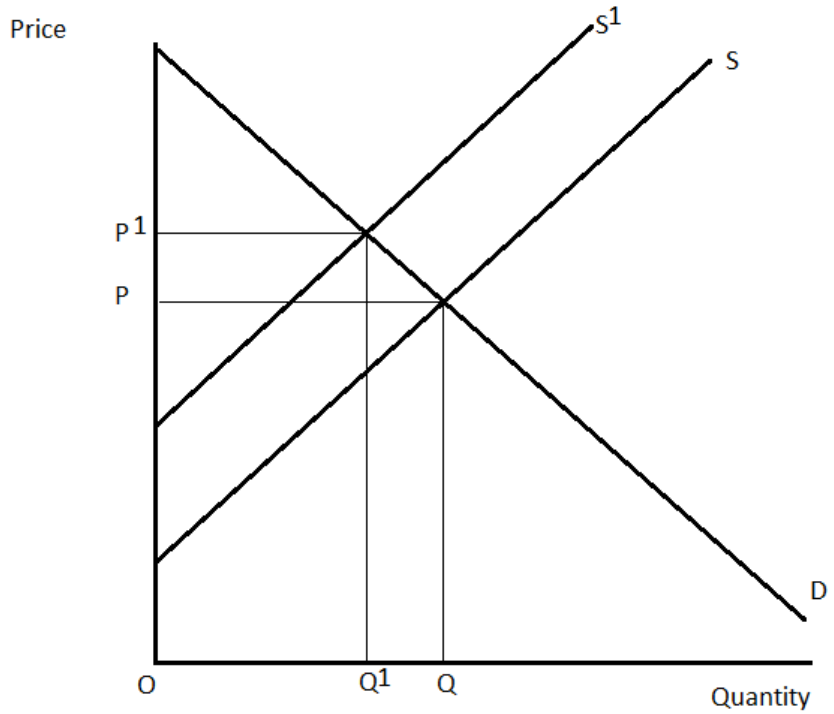
- Minimum wage- the wage floor below which firms cannot pay



- Minimum wage rises
- Contraction of demand
- Extension of supply
- Unemployment results
- May identify change in unemployment

- Reference to higher unemployment and rising costs in data

- By having to pay each worker extra, the cost of producing goods or services will increase.
- Employers will either pass that cost on to customers by raising prices
- Find savings by investing in labour saving equipment/capital rather than labour



Candidates can show impact on labour market or product market

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 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 minimum wage, with some application to 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 the minimum wage in the context. 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		
	• The minimum wage increases contributed to substantial increases in average wages for workers in low-wage jobs • Reverse trend of falling real wages • Helping to reverse a pattern of stagnant or falling real wages- Raising above $7.25 in 18 states- reverse trend of falling real wages • This has occurred without any sign of an impact on employment or hours worked. • Magnitude- depends on the size of change in minimum wage • Measurement- hard to quantify costs/ benefits • Time period- short run- long term impact may vary • The increase in the minimum wage may not be binding in all labour markets	
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)		**(14)**
Knowledge, application and analysis – indicative content		
	• Immigration- when people come in to country from abroad • With EU exit it might cause supply of labour to fall • This will cause a contraction of labour demand • Higher wages may be needed to persuade people to work • Employment may fall • Food manufacturers costs may rise • Supply may fall • Price may rise • Output may fall • Less immigrants may lead to less demand for food manufacturers products • Experienced difficulty in recruiting suitably skilled and well-motivated UK workers- so likelihood of replacing them is unlikely	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of impact of immigration. 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 immigration, 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 under 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- 31% of the sector EU citizens so significant impact • Short run- may not affect straightaway depending on when changes implemented • Those here before may be allowed to stay/ negotiations may see some immigration • Firms may substitute labour for capital/ machines • This will require significant investment • There may not be a significant change in immigration levels- may rise meaning demand would still rise	

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)		**(10)**
Knowledge, application and analysis – indicative content		
	• Relocation subsidies, cash grants to encourage job seekers to relocate for work. • Defines mobility/immobility of labour/ geographical mobility/immobility of labour • Reduces geographical immobility of labour/ increases mobility • Job seekers can receive payments of up to AUD$3 000 if relocating to a capital city or AUD$6 000 if relocating to a regional area. They can also receive an extra AUD$3 000 if relocating with children. • The new location must have a higher unemployment rate than where the job seeker currently lives. • Reduces cost of moving • Increasing incentive for people to relocate • Help transfer people from where unemployment is high to where vacancies exist	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of impact of relocation subsidies. Diagram may be inaccurate. 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 impact of relocation subsidies. Diagram likely to be accurate. 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 impact of relocation subsidies. Accurate diagram drawn and explained. 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		
	• Time - may be delays before people organise move. • Depends on how long subsidies are paid. • Magnitude - depends on the numbers relocating/ size of subsidy • Opportunity costs - spending money on relocation subsidies rather than other areas in economy • Some may be able to afford to move without subsidy and waste of scarce government resources. • No impact on occupational mobility- need training to help here • Depends on how sensitive labour is to change in financial incentives • Other factors more important -e.g. family ties.	

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.

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