GradeMax



Mark Scheme (Results)

October 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 A (1 mark)** **Explanation (up to 3 marks)** • Definition of free market economy – e.g. price mechanism allocates resources/ no government intervention **OR** • Definition of price mechanism- e.g. allocating resources using the forces of supply and demand **(1)** • As the price of a good falls, firms are likely to find producing this good less profitable/rewarding beneficial **(1)** • So firms will have an incentive to reduce production of this good in favour of more profitable goods **(1)** • Diagram showing demand shifting left and price falling **(1)** **Rejection marks** **Do not double award** • Option B: incorrect as demand falling would cause the price to fall **(1)** • Option C: incorrect as a price fall would indicate that demand has risen **(1)** • Option D: incorrect as the government would not intervene in the free market economy. **(1)**	**(4)**

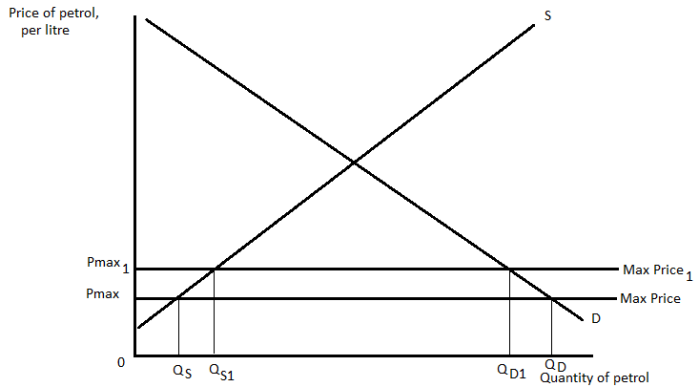
Question Number	Answer	Mark
2	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of production possibility frontier- the maximum possible production of capital goods and consumer goods using all available resource **OR** • Definition of opportunity costs- costs of the next best alternative forgone **(1)** • Application: for movement from x to w gains 20 units of capital goods **(1)** but the number of consumer goods falls from 100 to 50 units/100-50=50 **(1)** **Rejection marks** **Do not double award** • Option A: incorrect because point w has more capital goods which would lead to see more possible output next year **(1)** • Option B: incorrect as point z has no capital goods thus resulting in less growth than point v where capital goods exist **(1)** • Option D: incorrect because 30 consumer goods is the gain and not the opportunity cost/ opportunity cost is 40 capital goods. **(1)**	**(4)**

Question Number	Mark	
3	**Answer A (1 mark)** • Definition of indirect tax – expenditure tax/tax on goods and services/tax paid via third party **OR** Supply curve shifts to the left because of higher costs of production **(1)** • Identification that this is an ad valorem tax **(1)** • The amount of tax paid increases as the price per drink rises/ the supply curve pivots as the 10% tax is added to each price **(1)** **Rejection marks** **Do not double award** • Option B: incorrect as this is a specific tax where a set amount is added to all prices **(1)** • Option C: incorrect as this would be the effect of a subsidy for sugar sweetened drinks/reduction in tax **(1)** • Option D: incorrect as a change in indirect tax affects the firm's costs and therefore its supply and does not shift the demand curve. **(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of the division of labour- where the production process is broken down into tasks that each worker focuses on one task **(1)** • The worker will be trained up to do a limited range of tasks/ workers do not need to be trained in many skills **(1)** • Rather than having to be trained up on every stage or production **(1)** • Reduced training needs will save time and costs **(1)** • Suitable application linked to manufacturing **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as output per worker tends to increase as the workers spend less time changing tools **(1)** • Option B: incorrect as staff repeat the same task the monotony is likely to cause boredom **(1)** • Option D: incorrect as businesses are more likely to use machinery as tasks may be automated as they are repetitive **(1)**	**(4)**

Question Number	Answer	Mark
5	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of rational decision making- where consumers maximise utility **(1)** • When the price rises consumers can gain more utility from switching to cheaper suppliers **(1)** • They gain more utility as the money saved can be used to gain utility from consuming other goods **(1)** • The costs associated with switching would be smaller than the gain from lower price with a firm other than SSE **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as had the consumers experienced habitual behaviour they would have been more loyal to SSE and remained customers **(1)** • Option B: incorrect as inertia would mean that customers would avoid switching to avoid the hassles involved with moving **(1)** • Option C: incorrect as irrational behaviour would occur where customers remain with SSE despite the higher prices compared to competitors **(1)**	**(4)**

Question Number	Answer	Mark
6	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition or formula for cross elasticity of demand- % change in Qd of x/ % change in price of y **(1)** • A good with a negative XED is a complementary good / definition of complement **(1)** • When the price of cricket bats rises the quantity of cricket balls is likely to decrease **(1)** • Cricket bats and cricket balls are used or bought together/ likely to be in joint demand **(1)** **Rejection marks** **Do not double award** • Option A: incorrect since desktop computers and tablet computers are substitutes as you can choose to access the internet on either/ substitutes as XED is positive **(1)** • Option B: incorrect since electric ovens and gas ovens are substitutes and they complete the same function **(1)** • Option C: incorrect as sports cars and umbrellas are unrelated goods/ likely to have an XED of zero. **(1)**	**(4)**

Question Number	Answer	Mark
7	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition maximum price- a price ceiling above which prices cannot rise **OR** Definition of excess demand- where quantity demanded is greater than supply/ where a shortage exists **(1)** • Diagram showing increase in maximum price below equilibrium price **(1)** • Identifying the new excess demand/ shortage **(1)** • Identifying decrease in excess demand Q_{S1}-Q_S and Q_D-Q_{D1} **(1)**  Alternative written explanation As the maximum price rises the quantity supplied increases/ supply extends **(1)** and quantity demanded decreased / demand contracts **(1)** leading to a decrease in excess demand **(1)** **Rejection marks** **Do not double award** • Option A: excess demand was larger at Q_D-Q_S before the change in maximum price **(1)** • Option C/D: incorrect as excess supply occurs when a minimum price is set above the market price **(1)**	**(4)**

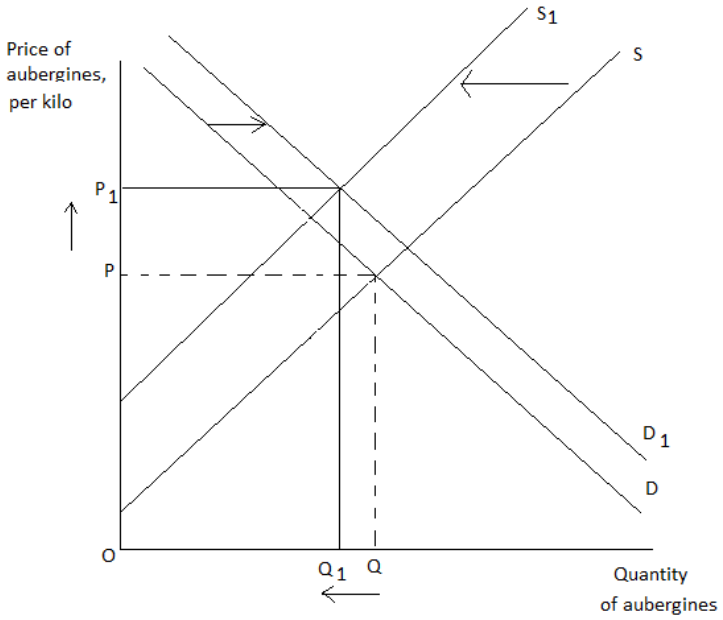
Question Number	Answer	Mark
8	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of government failure - where government intervention leads to a net welfare loss **(1)** • Reason - e.g. the government intervention aims to cut external costs caused by cigarette consumption **(1)** • But this has caused an unintended consequence as the high tax has created an incentive for consumers to smuggle cheaper goods from abroad **(1)** • This causes a net welfare loss as the government loses tax revenue of Sh1billion/ the cigarettes are poor quality and cause further health problems/ money raised by smugglers or counterfeiters may fund organised crime **(1)** • Net welfare loss if tax revenue gained from higher tax is smaller than money lost through smuggling. **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as cigarettes are not public goods / do not experience the free rider problem as they are excludable and rival **(1)** • Option B: incorrect as the tax increase causes the cost of production to rise therefore the price to rise **(1)** • Option D: incorrect as market failure is when price mechanism allocates resources inefficiently / the market failure is external costs suffered by the NHS before the tax is increased/ the higher tax is likely to cause the size of the welfare loss to fall as output gets closer to the social optimum **(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

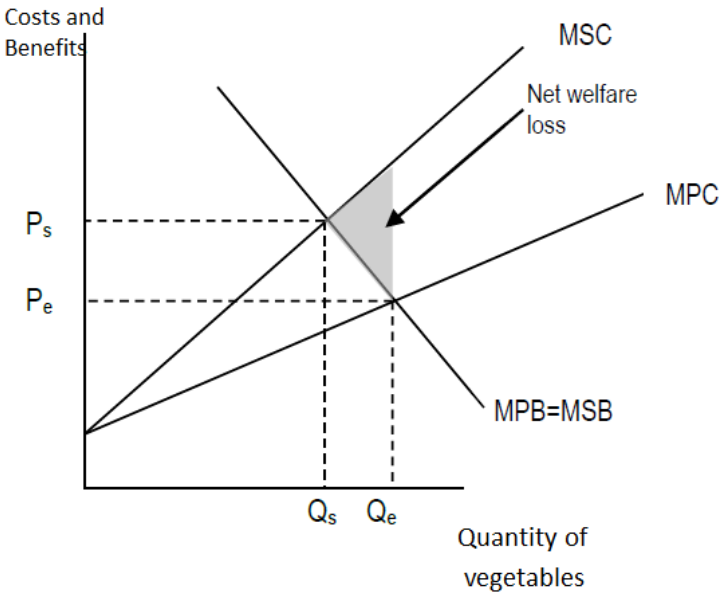
Question Number	Answer	Mark
9(a)	**Knowledge, application and analysis (Up to 4 marks):** **Formula or definition of price elasticity of demand** PED= $\frac{\%\text{ change in } Q_D}{\%\text{ change in P}}$ **(1)** **Calculation of the change in quantity** -0.79 = $\frac{?\%}{8\%}$ 8% x -0.79 **(1)** = -**(1)** 6.32% **(1)** N.B Candidates may achieve a mark by identifying a decrease in quantity demand when they identify the response as 6.32 without the negative sign • The price elasticity of demand is relatively inelastic **(1)** • So the change in quantity demanded will be proportionately smaller than the change in price/ the change in quantity will be less than 8% **(1)** • Diagram clearly showing quantity demanded less responsive than change in price **(1)** • Due to the law of demand a rise in price will see a reduction in quantity **(1)**	**(4)**

Question Number	Answer	Mark
9(b)	**Knowledge, application and analysis (up to 6 marks)** **One mark for a supply factor** • flooding, frost and snow in Spain **or** • problems growing the vegetables **or** • lorries transporting to the UK had problems in the snow **(1)** **One mark for a demand factor** • healthier lifestyles **(1)** Diagrammatic analysis which shows: • a shift to the left of the supply curve **(1)** • a shift to the right of the demand curve **(1)** • original equilibrium price and quantity **(1)** • new equilibrium where demand and supply have been shifted **(1)** • **NB quantity may be higher or lower depending on the extent to which they shift supply and demand**  	**(6)**

Question Number	Answer	Mark
9(c)		**(10)**
Knowledge, application and analysis – indicative content		
	• Price of a kilo of aubergines increased 132% in January 2017. Courgette prices increased 60%. • This adds to the costs of the manufacturers • This causes a reduction in supply • Price rises • Quantity falls • Producer revenue falls • Producer surplus/ profit falls • Producers may use cheaper substitutes or less vegetables **Candidates should be rewarded for offering a relevant diagram**	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of change in costs impact on supply. 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 change in costs impact on supply. 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 change in costs impact on supply in the context of 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		
	• Depends on the proportion of costs that go on vegetables • Magnitude this is a large increase in costs e.g. aubergine 132% and courgettes 60% • Depends on how the costs of other inputs change • Time- short term this could be a problem but prices should fall when there is better weather.	
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 transaction • could be more harmful to the environment than consuming meat Economic impacts- negative • Lettuce was three times worse for producing greenhouse gas emissions than eating bacon- energy cost, water use and emissions. Lettuce uses a lot of water and energy to produce • Maintaining calorie intake but completely shifting to healthy foods increased energy use by 43%, water use by 16% and emissions by 11%. • More energy use will increase power production including use of fossil fuels which will contribute to pollution/ carbon emissions • More water use will cause problems for water companies/ leaves less water for other parts of the economy • L3 responses will explain how third parties are negatively affected • Diagram to show external costs may be offered:  N.B. Level 3 diagrams will show external costs which are higher for vegetable production.	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the external costs of vegetable production but information presented is often irrelevant and lacks organisation. Diagram may be offered but be inaccurate. 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 vegetable production. This may be supported by an accurate 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 vegetable production. This may be supported by an accurate 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 vegetables produced • Measurement issue measuring the size of the external costs • Time period: may take time for build-up of external costs • Vegetables are likely to generate health benefits and lead to less need for healthcare- external benefit • More output means more revenue might be earned by farmers • Different vegetables will use different levels of water	

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 of junk food • Increases costs for producers • Reduces supply of junk food as indirect tax reduces profits • Increases price • (likely to be drawn diagrammatically) • Decreased producer surplus • Decreased pressure to produce more- link to external costs • Producer incidence of tax • May substitute to lower fat/ sugar/ salt alternatives Consumers of junk food • Increases price- making junk food less affordable • Decreases quantity consumed- • Consumers will reap more health benefits if they substitute to fruit/ vegetables • Consumers will have less health issues- diabetes/ obesity • Decreased consumer surplus • Consumer incidence of tax Government • Revenue for Government from tax • Government can use fund to tackle obesity in schools/sports and other programs • Less money will be needed to tackle obesity and diabetes • 500 000 extra years of healthy life to Australia's population of 23 million of the tax and subsidy changes • It should also save more than AUD$3 billion in healthcare costs over the remaining lifetimes of all Australians alive today	

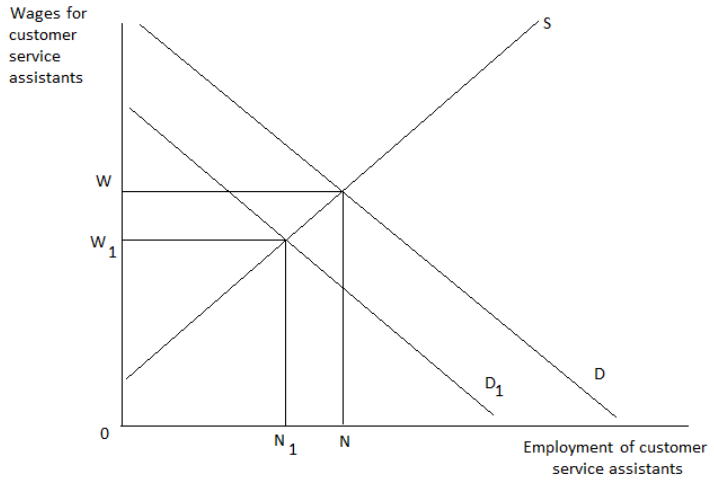
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the effect of indirect tax and subsidy. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the effect of indirect tax and subsidy with link to context. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the effect of indirect tax and subsidy 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/ size of subsidy • Incidence of indirect tax/ subsidy – depends on elasticity of demand • Hungary taxes had small impact/ In Mexico, daily soft drink consumption fell 12 millilitres per person in the first 12 months. • Key is that the indirect tax is matched by the subsidy so overall household bills do not increase • Other policies could help- restricting marketing aimed at children, labelling unhealthy foods, and encouraging food manufacturers to use less sugar, salt and saturated fat • Subsidies may also be needed to encourage producers and consumers of fruit and vegetables	

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

Question Number	Answer	Mark
10(a)	**Knowledge, application and analysis (Up to 4 marks):** **Up to 2 marks related to normative statements** • Definition of normative statements- a statement based on value judgements/ not based on facts/ cannot be verified/subjective **(1)** • Retraining programmes should be introduced to reduce occupational immobility **(1)** • The word should suggest it is normative as it is based on someone's value judgment **(1)** **Up to 2 marks related to positive statements** • Definition of positive statements- a statement based on fact/ value free/ can be verified/objective **(1)** • Universities in the Philippines to receive $298 million subsidy **(1)** • It is a positive statement as you could verify whether the $298million is paid **(1)**	**(4)**

Question Number	Answer	Mark
10(b)	**Knowledge, application and analysis** **(up to 6 marks)** **Any one from:** • machines increasingly take over production **(1)** • 40-50% of tasks performed in customer care by humans fall into a category that is at high risk of being replaced **(1)** • Routine processes like updating payment cards, addresses, passwords and other basic processes could be done by robots. **(1)** • 47% of US jobs are vulnerable to automation **(1)** • taxi drivers … at risk with the development of driverless vehicles **(1)** • Need fewer people to check or run machinery **(1)** **Any two from:** Labour and capital/ robots/ machines are substitutes **(1).** So as demand for capital rises the demand for labour will fall **(1)** Labour is a derived demand **(1)** **Diagram showing demand rising** • Original equilibrium wage and employment/ quantity of labour **(1)** • Shift of demand for labour to left **(1)** • New equilibrium showing lower wage and lower employment **(1)**	**(6)**



Question Number	Answer	Mark
10(c)		**(10)**
Knowledge, application and analysis – indicative content		
	• Immobility of labour defined • Occupational immobility of labour- the inability of labour to move between occupations • Workers in the customer service industry are likely to be replaced by machines/ robots. They may lack the skills to move to other sectors that require labour • Many are unaware of the risk of being replaced so will not themselves invest in retraining • Taxi drivers will not see that they may be replaced by driverless cars and will under invest in training for new skills • Retraining scheme- will help workers develop new skills. • With the new skills workers will be able to transfer to new industries where demand for labour remains • Thus, reducing the occupational immobility of labour • Increased skills may also make workers more geographically mobile as they will be able to access more jobs in more places	

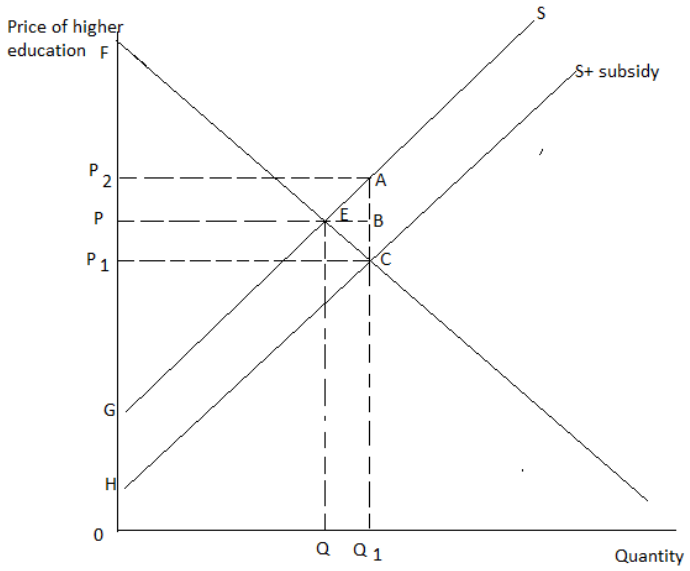
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of impact of retraining schemes. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	3-4	Understanding of impact of retraining schemes. 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 retraining schemes. 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 some time before governments can start the scheme- need to recruit trainers/ determine where training is needed • Magnitude- depends on the numbers involved in retraining/ 47% of US jobs at risk from automation so significant amount of retraining needed • Opportunity costs- spending money on retraining rather than other areas in economy • Some may be able to afford to retrain without government scheme/ some may have skills to transfer without retraining and waste of scarce government resources. • Subsidies may be more effective in increasing geographical mobility/ training may not reduce geographical immobility • Government may not know which sectors will need labour in the future	

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

Question Number	Answer	Mark
10(d)		**(14)**
Knowledge, application and analysis – indicative content		
	• Define market failure • Define information gaps • Define external benefits • Prospective Filipino students are considering the benefits and costs to themselves but not taking into account benefits to third parties. • Ignoring external benefits- benefits to third parties Examples could include: • Employers who would benefit from more skilled labour • Governments who would benefit from higher tax revenue as employers are more productive and would earn more • If people become teachers the students would benefit from better education • If people become doctors the patients would benefit from better healthcare • By ignoring these benefits to others society may find that there is less investment in education • Prospective students are unware of the likely returns of the education and how the degree will benefit them. • Imperfect market information as people do not have information about the benefits of education • Skills developed, knowledge developed, the experience, networks developed • Returns of education in terms of the potential to earn more over their lifetime • They therefore may underestimate the private benefits also leading to under investment • Both examples of market failure- where there is an inefficient allocation of resources and there is too little of the good consumed compared to the social optimum level of output. • May offer a diagram to show external benefits, welfare loss or under-consumption compared to social optimum	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of market failure in education market. 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 market failure in education market, 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 of market failure in education market, will be applied to 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		
	• Magnitude- depends on the size of the external benefits/ the size of the information failure • Measurement- hard to quantify costs/ benefits • Government/ universities can help correct market failure by providing information on returns to and benefits to education • May not be market failure but rational decisions based on high costs of tuition and cost of living whilst studying	
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		
	• Subsidy- cash grant paid to encourage production/ consumption • Lowering the private costs experienced by consumers • For SUCs it will lower their costs of production • SUCs will increase supply (S to S+subsidy) • Price paid falls (P to P_1) • Quantity accessing university increases (Q to Q_1) • Cost to government (P_1P_2AC) • Producer subsidy (PP_2AB)/ consumer subsidy (PP_1BC) • Consumer surplus increases from EFP to CFP_1. an increase of $CEPP_1$ • Producer surplus increases from EGP to CHP_1 • Reduces size of welfare losses from under consumption • Moves closer to social optimum • Corrects market failure • Prioritises education and invests in next generation so more skilled- more productive- earn more in lifetime **Diagram may be supply and demand or external benefits diagram showing impact of subsidy**  Analysis looking at private universities should be rewarded	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of impact of subsidy. Diagram is likely to 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	4-6	Understanding of impact of subsidy, with some application to context. Diagram is 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	7-8	Clear understanding of impact of subsidy and application to context. Diagram is accurate, comprehensive and utilised in write up. 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- will $298million make a big difference • Short run- if there is annual intake it might be some time before benefits are seen • Poorer students generally have less opportunity to meet entry requirements for University/ no support to cover living expenses while studying- so little impact • Private Universities are concerned that students will opt for SUCs to receive free education- thus revenue/ profit for private universities will suffer • Subsidy will not be dependent on income so all will receive it- even those that can afford it anyway- not efficient allocation of government resources • Those can afford it can choose to opt out but may not- meaning policy is not focused on helping those that need it most • Filipino students must study for a degree in a SUCs- may not offer courses students want to study

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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