GradeMax



Mark Scheme (Results)

January 2020

Pearson Edexcel International A Level In Economics (WEC11)

Paper 01 Market in action

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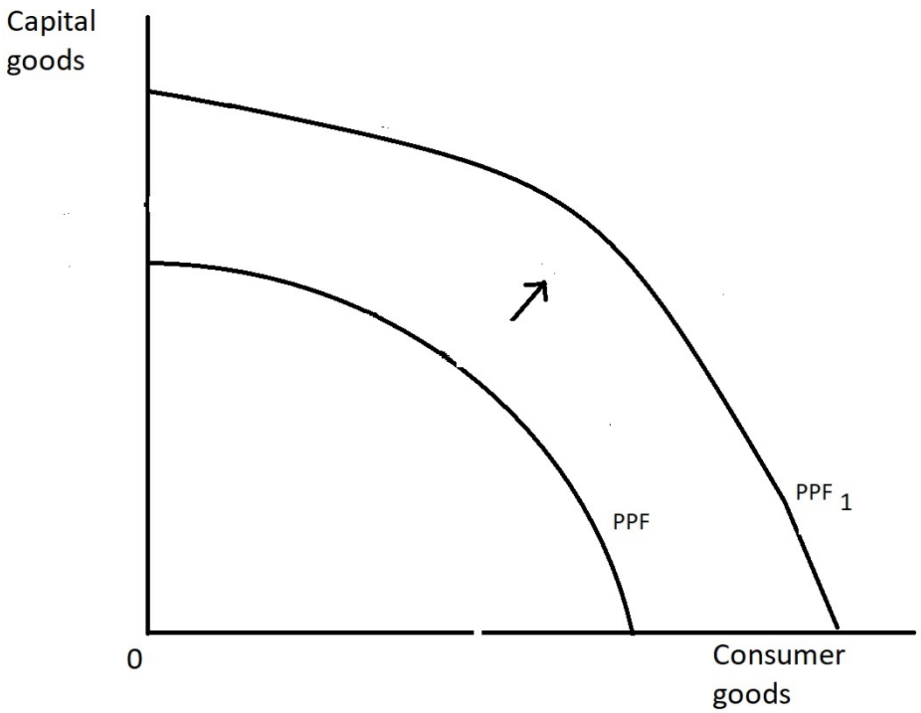
General Marking Guidance

- 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

Question	Quantitative skills assessed	Answer	Mark
1	–	D	**(1)**
2	–	A	**(1)**
3	–	B	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	D	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	C	**(1)**
6	**QS8**: Make calculations of elasticity and interpret the result	A	**(1)**

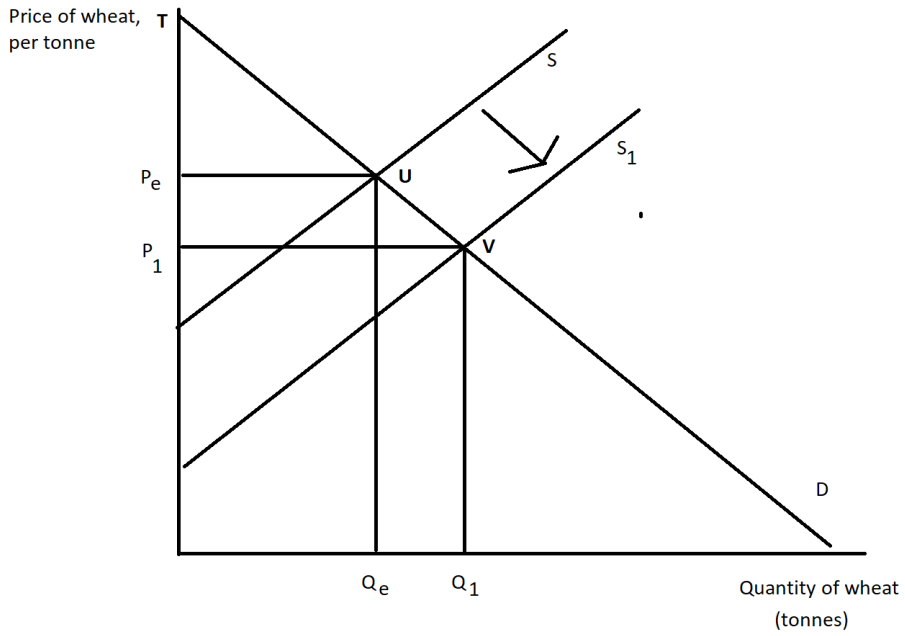
Section B

Question	Draw a diagram to illustrate the impact of this change in Qatar's population on its production possibility frontier. **Answer**	Mark
7	**Knowledge 1, Application 3** Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** • Correct labelling of the axes (e.g. with capital and consumer goods/ two other relevant goods/ good A and B) **(1)** **Application** Up to 3 marks for the following information included on diagram: • Drawing the original PPF **(1)** • Drawing a new PPF shifted to the right **(1)** • Making it clear that it has shifted outwards through the use of an arrow or labelling the curves (e.g. PPF to PPF_1) **(1)**  PPFs may be drawn as straight line or concave to the origin.	**(4)**

Question	With reference to the Hong Kong housing market, explain what is meant by a 'market bubble'. **Answer**	Mark
8	**Knowledge 2, Application 2** **Knowledge** 2 marks for defining 'market bubble.' • A bubble is created by speculation/expectations of further price increases **(1)** • To a level which is overinflated/above expected prices/increase to extreme levels/increasing constantly **(1)** • Price is unsustainable/value is higher than true/real value **(1)** • A market bubble is an example of a market failure **(1)** **Application** 2 marks for applying to the Hong Kong housing market e.g.: • In Hong Kong the house prices have increased by 10% per year between 2012 and 2018 **(1)** • House prices may be at risk of falling/ the housing price bubble may be at risk of bursting/ demand may fall when potential buyers can no longer borrow money/ loss of confidence about future price rises **(1)**	**(4)**

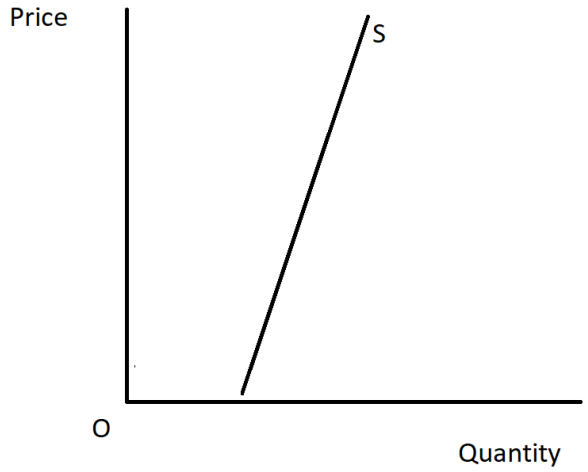
Question	Explain why this tax on imported cars is an example of government failure. **Answer**	Mark
9	**Knowledge 1, Application 1, Analysis 2** **Knowledge** 1 mark for defining government failure, e.g.: • where government intervention leads to a net welfare loss/misallocation of resources Or for identifying the type of government failure • This is government failure as it is an unintended consequence **(1)** **Application** Up to 1 mark for applying to the government failure in the stem, e.g.: • Government seized smuggled cars / removed 800 smuggled cars in July 2018 **(1)** • Calculation of a relevant tax payable on a car / the calculation must be for a car worth $74 000 or above **(1)** **Analysis** Up to 2 marks for explaining how this is an example of government failure e.g.: • The 50% tax on imports of cars over $74 000 is substantial **(1)** meaning consumers may try to avoid the tax and smuggle cars **(1)** • The tax on a car valued at $74 000 is excessive at $37 000 **(1)** creating an incentive for people to smuggle cars **(1)** • To avoid the tax consumers will smuggle cars **(1)** meaning the Government will lose tax revenue **(1)** • There will be more unregistered cars on Philippine roads **(1)** owners will not pay for road taxes **(1)** • Owners of smuggled cars will struggle to find people to maintain unregistered cars **(1)** compromising safety of other drivers **(1)**	**(4)**

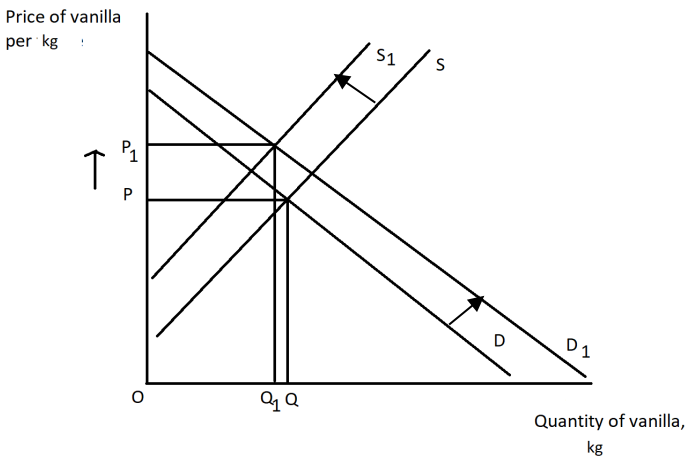
Question	Based on the data in the table, calculate the income elasticity of demand for visits abroad by UK citizens. Show your workings. **Answer**	Mark
10	**Knowledge 1, Application 3** Quantitative skills assessed: **QS8:** Make calculations of elasticity and interpret the result. **Knowledge** • 1 mark for the formula for income elasticity of demand: % change in quantity demanded % change in income **(1)** Accept definition of YED **OR** • 1 mark for identifying that the good is a normal good/ UK visits abroad are a normal good as when income rises, demand rises. **Application** Up to 3 marks for calculations: • Change in quantity ÷ original quantity 1.9m ÷ 70.8 x 100 = 2.68% **(1)** • Change in income ÷ original income 11 ÷ 539 x 100 = 2.04% **(1)** • % Change in quantity ÷ % change in income 2.68% ÷ 2.04% = 1.3137 **(1)** **NB: if correct answer (1.3137) is given, award full marks regardless of working.** **Accept accurate answers given to 1dp, 2dp, 3dp, 5dp etc.**	**(4)**

Question	Explain the likely impact of this fall in price on consumer surplus in the market for wheat. Illustrate your answer with a diagram. **Answer**	Mark
11	**Knowledge 1, Application 1, Analysis 2** Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **Knowledge** 1 mark for defining consumer surplus • Consumer surplus is the difference between the price the consumers are willing to pay and the market price/gap between the equilibrium price and the demand line **(1)** **Application** 1 mark for the following diagram, showing the correct shift in supply  **Analysis** 1 mark for original consumer surplus • Consumer surplus is originally P_eTU **(1)** 1 mark for new consumer surplus or increase • Consumer surplus increases to P_1TV **(1)** • Consumer surplus increases by P_eP_1VU **(1)**	**(4)**

Section C

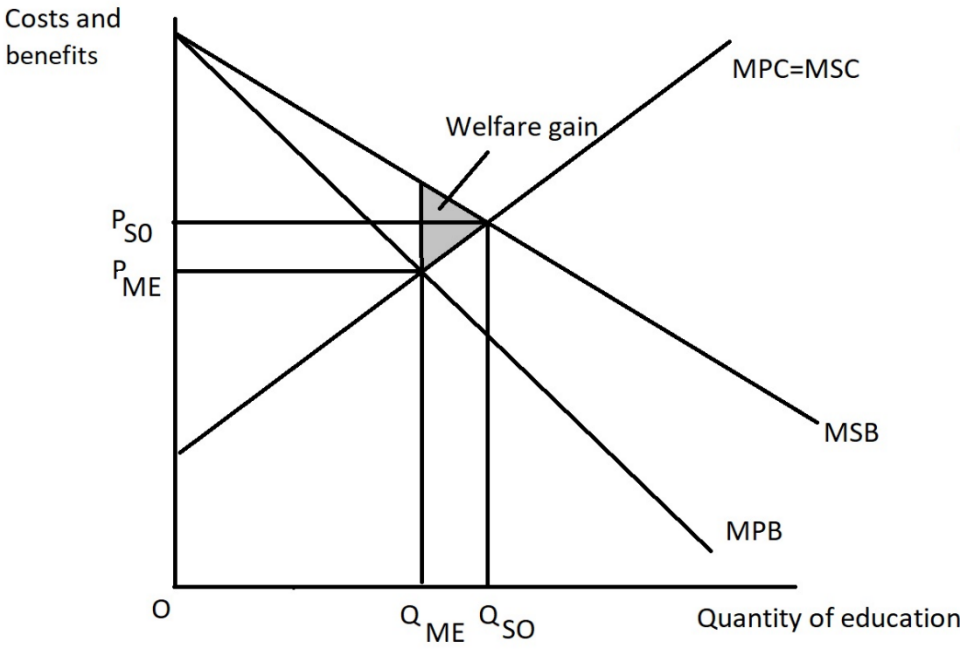
Question	Define the term 'substitutes' (Extract A, line 8). **Answer**	**Mark**
12 (a)	**Knowledge 2** Up to 2 marks for defining a 'substitute', e.g.: • Two goods that serve the same need. **(1)** • Consumers can switch between the two goods and receive similar benefits **(1)** • A good which has a positive cross price elasticity of demand **(1)** • Where the price of one product increases it leads to an increase in quantity demanded of the other product **(1)** • Example from Extract A: Vanilla and vanillan **(1)**	**(2)**

Question	Explain what is meant by the term 'inelastic supply'. Refer to Figure 1 and Extract A in your answer. **Answer**	Mark
12 (b)	**Knowledge 2 Application 2** **Knowledge** Up to 2 marks for definitions of inelastic supply: • Where the price elasticity of supply is between 0 and 1 **(1)** • Where an increase in price leads to a smaller proportionate increase in quantity supplied **(1)** • Diagram to shows inelastic supply **(1)**  **(1)** **Application** 1 mark for application to Figure 1: • In Madagascar the supply is price inelastic at +0.48 **(1)** • In Indonesia the price elasticity of supply is +0.52 **(1)** • Vanilla from Madagascar has more inelastic supply than Indonesia at +0.48 **(1)** • Vanilla from Indonesia also has inelastic supply although it is more elastic than Madagascar **(1)** • The elasticities of supply of vanilla from Madagascar and Indonesia are both between 0 and 1 making them inelastic **(1)** 1 mark for application to Extract A • 'it takes 3 years for the vanilla crop to mature' showing inelastic as takes time to supply **(1)** • 'Few other countries have the climate to be able to grow the crop' so it is not easy for other countries to supply the crop **(1)** • 'some farmers will not see their vanilla crops recover fully until 2020' showing it takes time for supply to adjust/respond **(1)**	**(4)**

Question	Analyse why the price of vanilla increased significantly between 2014 and 2018. Refer to Figure 2 and Extract A in your answer. Illustrate your answer with a supply and demand diagram. **Answer**	Mark
12 (c)	**Knowledge 2, Application 2, Analysis 2** Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for the diagram showing: • Original supply, demand and equilibrium **(1)** • Final equilibrium showing higher price **(1)** **Analysis** Up to 2 marks for identification of one reason linked to demand and one linked to supply which leads to higher prices, e.g.: • 2017 cyclone destroyed crop and reduced supply **(1)** • In recent years consumers switched to natural vanilla/ Consumers switched away from vanilla substitutes, e.g. vanillan/ • Rapid growth in demand for ice cream, sweets, chocolate and in cosmetic products which use vanilla **(1)** **Application** 1 mark for reference to Figure 2 • Price rises from $140 per kg to $600 per kg/ by $460/ by 328.6% **(1)** Up to 2 marks for diagram: • Leftwards shift in supply **(1)** • Rightwards shift in demand **(1)**  	**(6)**

Question	With reference to Extract C, examine two microeconomic effects of Finland's decision to remove the sugar tax. **Answer**	Mark
12(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge and Analysis** Up to 1 marks for knowledge of taxation, e.g.: • Definition of indirect tax: expenditure tax/ This sugar tax is a specific tax **(1)** Up to 2 marks for identifying two effects and up to 2 marks for linked explanations showing the impact of removal of the sugar tax, e.g.: • Removal will see the supply curve shift right leading to lower price paid by consumers **(1+1)** • The equilibrium quantity will increase meaning consumption of sugary products will rise **(1+1)** • The tax revenue earned by the government will fall reducing funds to tackle obesity **(1+1)** • Revenues and profits earned by firms with products who have the tax removed will increase as output rises. **(1+1)** • With the lower price the gap between what consumers are willing to pay and the market price will rise **(1+1)** • Producer surplus will rise as supply increases/demand extends **(1+1)** • The producers of biscuits and cakes will lose a competitive advantage and may lose revenue/ profit **(1+1)** • External costs may emerge as rates of obesity/ cancers etc rise **(1+1)** • Reward relevant diagrammatic analysis **Application** Up to 2 marks for reference to the given sources, e.g.: • Tax affects sweets, chocolate, ice cream and fizzy drinks **(1)** • Tax charged at €0.95 per kilogram or €0.11 per litre **(1)** • 5% reduction in consumption when tax imposed so removal may see consumption rise **(1)** • Tax was unfair with manufacturers of biscuits and cakes avoiding tax **(1)** • Tax revenue lost €109 million per year **(1)** **Evaluation** Up to 2 marks for evaluative comments, e.g.: • Whilst firms charged the sugar tax will benefit other firms will lose their competitive advantage **(1+1)** • External costs must be balanced with private benefits of production/ employment is created in the manufacturers of sweets, chocolate, ice cream and fizzy drinks **(1+1)**	**(8)**

	• Magnitude: the tax only caused a 5% reduction in consumption so removing it may only have limited impact on quantity demanded **(1+1).** • Magnitude: loss of Government revenue of €109 million per year is substantial meaning loss of funds for public services **(1+1)** • Measurement of the size of any external costs caused by extra sugar consumption is difficult to determine and quantify **(1+1)** • Extra sugar consumption may have impact over time with rates of obesity, diabetes and cancer rising later **(1+1)**	

Question	Discuss reasons why the 'quantity of education is below the social optimum level' (Extract B, lines 2 and 3). Refer to external benefits in your answer. Illustrate your answer with an appropriate diagram. **Indicative content**
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Quantitative skills assessed** **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, Application and Analysis (8 marks) – indicative content** • Definition of 'external benefits' – where there are positive impacts on third parties/where MSB is greater than MPB • Diagram showing external benefits  • Consumers only consider their private costs and their private benefits • Consumers ignore impacts on third parties/ external benefits • Consumers are undervaluing the benefit of education to society • The market equilibrium price, P_{ME} is below the social optimum price, P_{SO} • The market equilibrium quantity, Q_{ME} is below the social optimum price, Q_{SO} • Limited number of years of education just 4.4 years for adults • The welfare gain that can be achieved by moving to social optimum is shaded/ labelled • Under-consumption of education Q_{SO}-Q_{ME}, • Private benefits could include higher income over life time

	• External benefits could include lower government spending on health, welfare, and prisons; less poverty, better international competitiveness, new ideas and improved technology • Under-investment in education as wages can be earned in vanilla production • Benefits of employment may be greater than any lost benefit from under-consumption of education • 20 000 children aged 12 to 17 work in vanilla production/ 32% of workforce • Families need the child to work to supplement income • With rising costs of living children need to work so families can afford food • Poor conditions and overcrowding make education less attractive • Cyclones destroyed schools and money not available to improve schools • Public funds for education have been reduced • This is not a choice for families but a necessity to ensure survival/meeting of basic needs	
Level	Mark	Descriptor
	0	No rewardable material
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (6 marks) – indicative content • Magnitude of external benefits. • Magnitude of welfare gain/loss- with only 4.4 years of education the welfare loss could be significant in size • Measurement – it is hard to measure the external benefits of education • Overcrowding in schools means private and external benefits may be small • There are significant numbers benefiting from education • Policy is only rewarded when evaluating the reasons given	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context.

		No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

<table>
<tr><td>Question</td><td colspan="2">Evaluate the advantages of the division of labour in organising production.

Indicative content</td></tr>
<tr><td>13</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance.
The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.

Knowledge, application and analysis (12 marks) – indicative content
Division of labour– where production process in broken down into tasks and workers focus on one task
When one worker does all stages of production, they will need to change tools and this takes time
Smith found that workers will produce only 10 to 20 pins per day
10x10= 100 OR 10x20=200 is the possible production before specialisation
4 800 is output per worker after division of labour is applied
If the pin factory breaks down tasks with one worker cutting, another sharpening etc they will use one tool and save time
Significantly increase output per worker per hour/productivity/efficiency
Using one particular tool workers may become faster
By paying the same wage for each worker and with them producing more production costs fall/ costs per unit fall
Training costs will fall as they will only need training in one area, not in all stages of production
Workers focus on one job and may become experts at the job helping them to increase output further
Workers can gain loyalty and a sense of achievement from their branch of the production
There is no need to move around the manufacturing unit; the half-finished good comes to the worker
Workers can concentrate on those jobs which best suit their skills and temperament
Businesses may be able to replace workers with machines if the job is easily automated
If costs are lower, businesses may be able to charge lower prices</td></tr>
<tr><td>Level</td><td>Mark</td><td>Descriptor</td></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–3</td><td>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.
Use of generic material or irrelevant information or inappropriate examples.
Descriptive approach which has no chains of reasoning.</td></tr>
<tr><td>Level 2</td><td>4–6</td><td>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.
Limited application of knowledge and understanding to economic problems in context.</td></tr>
</table>

		A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • If workers are highly specialised, then the job can become monotonous, very boring and repetitive. This can lead to low labour morale • If workers lose the motivation to concentrate and do a good job, mistakes may creep in as they get bored. Quality may fall • Adam Smith himself recognised this potential problem and advocated education of the workforce so that they wouldn't get too demoralised by their repetitive job • Workers may leave causing issues with staff retention. Therefore, businesses might need to spend more on recruitment to replace workers that leave • An assembly line could grind to a halt if there is a blockage in one particular area/ interdependence • If one worker is absent production can stop • Not all production processes can be broken down in this way • Repetitive tasks completed by workers can be replaced by machinery/capital leading to unemployment	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question	Evaluate the use of tradeable pollution permits to reduce pollution. **Indicative content**
14	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, application and analysis (12 marks) – indicative content** • Tradeable pollution permit- where firms are allowed to pollute up to limit. They can buy or sell permits as required • The idea is to reduce external costs associated with production by internalising the negative externality • 12 000 businesses including power producers, airlines, the steel industry • Firms who pollute will need to purchase permits from cleaner firms in the market • This adds costs to polluting firms and creates an incentive for them to lower costs by reducing pollution • This generates revenue to firms that are less polluting - creates incentive for firms to become cleaner • Quantity of pollution falls- external costs fall- move closer to the social optimum level of output • Producers may become more efficient improving the competitiveness of EU producers versus non-EU producers • Relevant diagram should be rewarded- e.g. external costs • The supply of permits will determine the price of the permits- high supply of permits being traded will leads to lower price and limited supply of permits being traded will increase the price • Acts as a signal to the Government that if price is falling supply of permits is too high, or if price is rising supply of permits may be more limited

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.

		Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • Measurement problem – what level should number of permits be set • Magnitude – depends on the how many permits are released to the size of the effect • Time frame – it will need to see ongoing reductions to ensure pollution continues to fall • Some producers may not remain viable- reducing employment, profits • EU might find it difficult to measure/ quantify the pollution levels • Competitiveness of EU producers is reduced compared to non-EU producers • Difficulty to enforce because it impacts 12 000 businesses • Cost of monitoring and enforcement may be significant/these costs may exceed any benefits – government failure • Alternative policies explaining how they might be more effective or not- e.g. regulation, taxation, subsidies for cleaner technology • Some schemes release too many permits issued leading to the price of the permits falling • Later EU reduced permits pushing up price	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.