GradeMax



Mark Scheme (Results)

January 2021

Pearson Edexcel International Advanced Subsidiary
In Economics (WEC11/01)
Unit 1:Markets in action

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General Marking Guidance

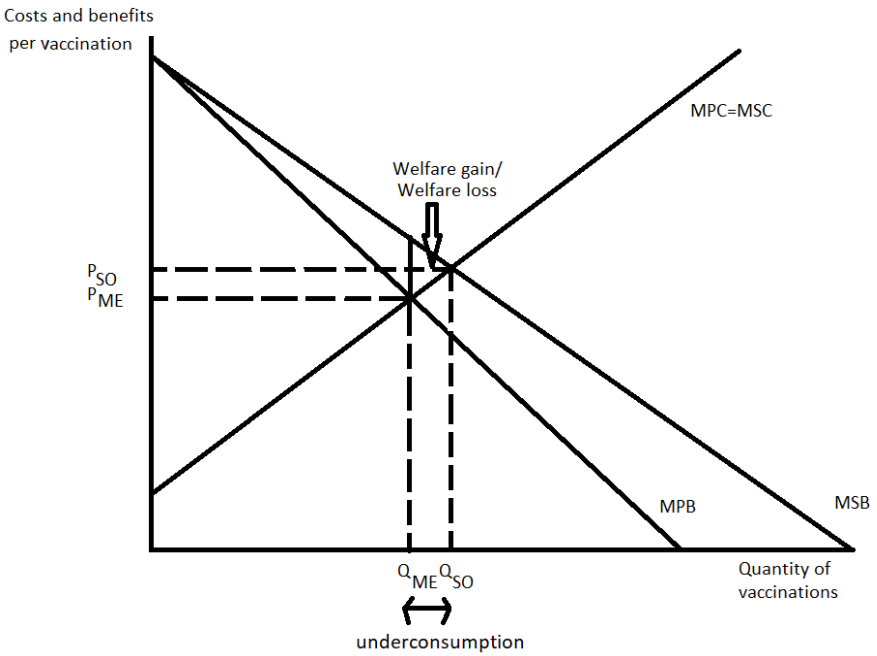
- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should 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

Question Number	Quantitative skills assessed	Answer	Mark
1		**The only correct answer is B** ***A*** *is not correct as this is successful government intervention* ***C*** *is not correct as this is market failure* ***D*** *is not correct as this is market failure*	**(1)**
2	–	**The only correct answer is C** ***A*** *is not correct as this economy only has price mechanism allocating resources* ***B*** *is not correct as this economy only has the government allocating resources* ***D*** *is not correct as this is where firms do not maximise profit and consumers do not maximise utility*	**(1)**
3	–	**The only correct answer is D** ***A*** *is not correct as forwards markets are found for commodities and currencies* ***B*** *is not correct as forwards markets are found for commodities and currencies* ***C*** *is not correct as forwards markets are found for commodities and currencies*	**(1)**
4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as utility is maximised at 4 glasses of milk* ***C*** *is not correct as consumption of the fifth glass results in decreasing marginal utility* ***D*** *is not correct as utility is maximised at 4 glasses of milk*	**(1)**

5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** ***B*** *is not correct as supply exceeds demand* ***C*** *is not correct as supply extends from* Q_e *to* Q_2 ***D*** *is not correct as demand contracts from* Q_e *to* Q_1	**(1)**
6	**QS8**: Make calculations of elasticity and interpret the result	**The only correct answer is C** ***A*** *is not correct as demand would increase 24.6%* ***B*** *is not correct as demand would increase 14.8%* ***D*** *is not correct as demand would fall as the good is inferior*	**(1)**

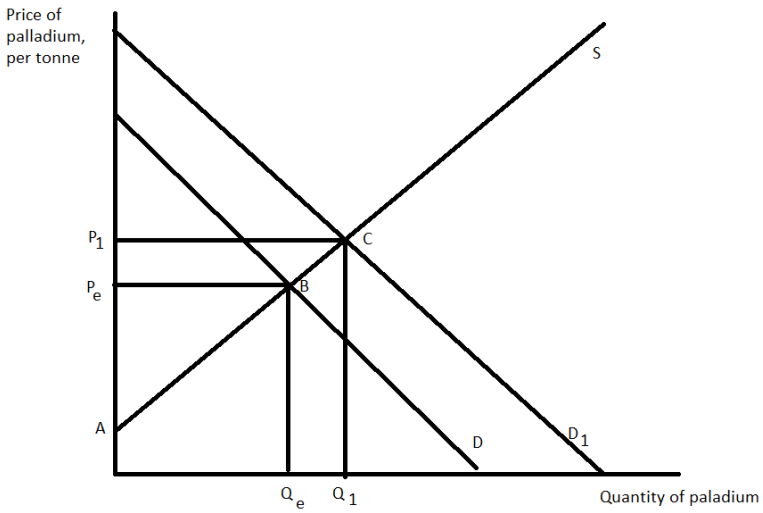
Section B

Question Number	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** 1 mark for showing knowledge on the diagram • MPB and MSB drawn in correct positions **(1)** **Application** Up to 2 marks for the following information included on diagram: • Market equilibrium **(1)** • Social optimum **(1)** • Welfare gain/loss triangle **(1)** 1 mark for the following information included on diagram or referred to in written explanation: • Clearly identifying the size of the underconsumption **(1)**  	**(4)**

Question Number	Answer	Mark
8	**Knowledge 2, Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 2 marks for defining 'external costs of production' • Negative impacts **(1)** on third parties **(1)** • Negative **(1)** spillover effects **(1)** • Where social marginal costs/MSC are greater than **(1)** private marginal costs/MPC **(1)** - May be shown diagrammatically • Where production leads to a cost **(1)** to third parties **(1)** **Application** 2 marks for applying to the data in the table e.g.: • Producing 1kg of lamb causes 24kg of greenhouse gas emissions/producing 1kg of poultry causes 6kg of greenhouse gas emissions/producing 1kg of beef causes 60kg of greenhouse gas emissions **(1)** • which will contribute to global warming/climate change **(1)**	**(4)**

Question Number	Answer	Mark
9	**Knowledge 1, Application 1, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for knowledge of moral hazard • Situation where one party gets involved in a risky event knowing that it is protected against the risk/ • Another party will incur the cost of a decisions **(1)** **Analysis** Up to 2 marks for explaining the concept of moral hazard linked to health insurance, e.g.: • The citizens are insured so take more risks **(1)** as they know that they will be covered by the insurer if they attend hospital **(1)** • The risk is transferred from the individual to the insurer **(1)** which may mean individuals are more willing to take risks/which increases the risk of injury **(1)** **Application** 1 mark for applying to the stem, e.g.: • 10000 Insured citizens had more hospital admissions/emergency department visits than the 45000 without insurance **(1)**	**(4)**

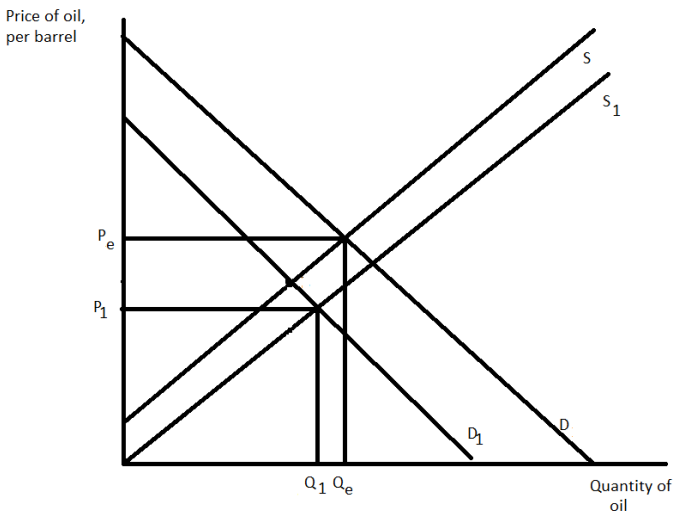
Question Number	Answer	Mark
10	**Knowledge 1, Application 3** Quantitative skills assessed: **QS8:** Make calculations of elasticity and interpret the result. **Knowledge** 1 mark for the formula for cross elasticity of demand: % change in quantity demanded of tea % change in price of coffee **OR** % change in P of coffee x XED =% change in Qd of coffee **OR** 1 mark for identifying that the goods are substitutes **(1)** **Application** Up to 3 marks for calculations: ? ÷ 32% = 0.52 **(1)** 32% x 0.52 **(1)** = 16.64% **(1)** **NB: if correct answer (17%/16.6%/16.64%) is given, award full marks regardless of working.**	**(4)**

Question Number	Answer	Mark
11	**Knowledge 1, Application 1, 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** 1 mark for defining producer surplus, e.g.: • Producer surplus is the difference between the price which producers are willing to sell at and the market price/ • Difference between market price and lowest price firms are willing to accept **(1)** **Application** 1 mark for the following diagram, showing the correct shift in demand  **Analysis** Up to 2 marks for likely impact on producer surplus: • Producer surplus is originally ABP_e **(1)** • Producer surplus increases to ACP_1 **(1)** • Producer surplus increases by P_eBCP_1 **(1)**	**(4)**

Section C

Question Number	Answer	Mark
12 (a)	**Knowledge 2** Up to 2 marks for defining a 'renewable resource', e.g.: • A resource that can be used again and again **(1)** • A resource that does not deplete with use **(1)** • A resource that does not run out **(1)** • A resource that is naturally replenished **(1)** • A resource that is infinite **(1)** • An example is hydroelectricity **(1)** **NB: do not reward other examples not in Extract B**	**(2)**

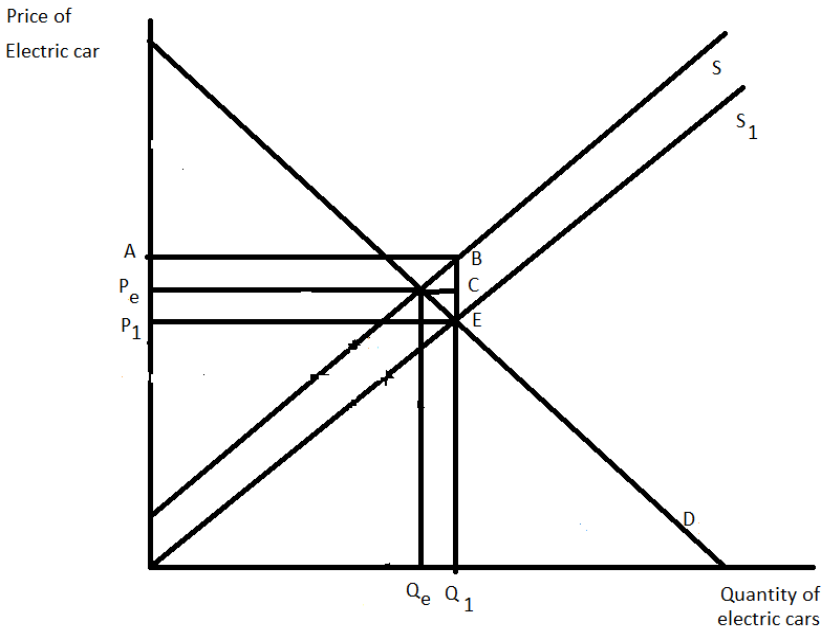
Question Number	Answer	Mark
12 (b)	**Knowledge 2 Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 2 marks for definition of rational decision making: • Rational decision-making is where consumers maximise **(1)** utility/benefits/satisfaction **(1)** **Application** Up to 2 marks for application to Extract B: • Consumers would purchase the E-Golf/ With added indirect taxation the VW Golf is more expensive than the subsidised electric VW Golf **(1)** • Consumers will save money on the purchase of an electric car/on the lower running and fuel costs which can then be spent on other goods and services that gain utility **(1)**	**(4)**

Question Number	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, and demand and equilibrium **(1)** • Final equilibrium showing lower price **(1)** **Analysis** 1 mark for demand factor e.g.: • Governments restricted the movement of people • Offices and factories closed • Significant reduction in production • Less transport and energy needed **(1)** 1 mark for supply factor e.g.: • Saudi Arabia and Russia increased supply of oil • Failure to agree to limit production **(1)** **Application**  1 mark for reference to Figure 1 • Price decreased from $68 per barrel to $32 per barrel/by $36/by 53%	

	Up to 2 marks for diagram: • Rightwards shift in supply **(1)** • Leftwards shift in demand **(1)**	**(6)**

Question Number	Answer	Mark
12 (d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge and Analysis** 1 mark for knowledge of indirect taxation, e.g.: • Definition of indirect taxation: expenditure taxation **(1)** Up to 2 marks for identifying two effects and up to 2 marks for linked explanations showing the impact of high indirect taxation, e.g.: • Indirect taxation causes the supply curve shift to left leading to higher price paid by consumers/as a result of higher costs to firms **(1+1)** • The equilibrium quantity will decrease compared to market equilibrium meaning consumption of petrol will fall **(1+1)** • External costs will fall as the tax moves us from the market equilibrium towards the social optimum **(1+1)** • The taxation revenue earned by the government can fund the tackling of external costs associated with petrol consumption **(1+1)** • Firms paying the tax will face higher costs resulting in a fall in profits **(1+1)** • With the high price the gap between what consumers are willing to pay and the market price will fall **(1+1)** • Producer surplus will fall as supply decreases **(1+1)** • High level of taxation may cause government failure if it causes the unintended consequence of smuggling from countries near India with lower taxation **(1+1)** • High levels of taxation may reduce external costs by moving us closer to the social optimum **(1+1)** (Reward relevant diagrammatic analysis)	

	Application Up to 2 marks for reference to the given sources, e.g.: • Indirect taxation is almost half of the price of petrol and diesel **(1)** • 'The significant fall in the global oil prices only resulted in a 7% decrease in the price of petrol and diesel' **(1)** **Positive effects may be offered as KAA and negative effects as EV or vice-versa** **Evaluation** Up to 2 marks for evaluative comments, e.g.: • This is a substantial taxation at almost 50% of price of petrol/diesel so will have a significant impact on price **(1+1)** • The tax makes up a large proportion of the price because the substantial fall in oil prices has only resulted in a small reduction in price of diesel and petrol **(1+1)** • Elasticity of demand is likely to be highly inelastic suggesting impact on quantity will be relatively small **(1+1)** • Health benefits will occur if external costs fall showing a positive impact of the taxation **(1+1)**	**(8)**

Question Number	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 'subsidy': - a cash grant to encourage production • Lowers the cost of production • $5000 subsidy paid per car to the manufacturer  • Supply shifts right S to S_1 • Price paid by consumers falls P_e to P_1 • Price received by producer increases from P_e to A • Consumer surplus increases • Producer surplus increases • Quantity of electric cars consumed increased from Q_e to Q_1 (from the current 2% of cars) • Size of the subsidy - costs to the government- $ABEP_1$ an opportunity cost • Consumer subsidy - P_eCEP_1 due to paying a lower price • Producer subsidy - $ABCP_e$

	• Revenue, profits increase for electric car manufacturers • Electric cars are zero emissions so help reduce carbon emissions compared to petrol and diesel cars • Reduces external costs associated with driving cars • Road transportation accounts for 20% of Canada's carbon emissions- helps reduce the emissions from road transport • Moves closer to social optimum • Manufacturers of non-electric cars may experience lower sales, lower revenue, lower profits **Positive effects may be offered as KAA and negative effects as EV or vice-versa** **NB: if no diagram candidates can achieve a maximum of Level 2.**

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 • Only on cars valued under $45000 • Only applies to nine electric car models • Infrastructure not being in place may reduce the impact. Only 5800 charging points to share between 37 million people so difficulty in accessing charging points may reduce likelihood of people buying electric • Electric cars cause emissions. To produce an electric car battery requires twice as much energy compared with the production of a petrol or diesel car battery. The electricity used to power the electric vehicle creates emissions if the electricity is generated using fossil fuels like coal • The magnitude of the subsidy is substantial at $5000 • Impact will depend on the time that it takes to make payments/length of time the scheme operates • Electric cars are not a close substitute for petrol or diesel cars and people may not be happy to buy electric • The impact on price to consumers depends on PED - if price inelastic demand the price could fall sharply/if price elastic the price change will be smaller.

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

Question Number	Indicative content
13	**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** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge, application and analysis (12 marks) – indicative content** • 'Irrational behaviour' - where consumers fail to maximise utility • A consumer could save on average AUS$1000 Reason consumers are irrational • 30% of consumers do not switch due to the effort required • Inertia - where the consumer does not want to put in the effort to be able to move • 22% do not switch because they lack the necessary information • Information failure - where a lack of information means the consumer may not realise the saving they can make by switching electricity supplier • Poor computational skills - it is difficult to calculate the savings that can be made by moving to a different electricity supplier • The influence of other people's behaviour (herding) - consumers may remain with suppliers because their friends and family use the same supplier • Habitual behaviour - where consumers use a supplier for a period of time and continue to use them out of habit • The need to feel valued - the current supplier may make them feel valued so they continue to buy from them despite the higher price • Framing and bias - people make a decision based on the way the options are presented to them- so may be persuaded to take the more expensive supplier because the way the supplier sold it to them

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

Reasons the decision is rational:

- There may be costs of substituting between suppliers
- Not switching may be a rational decision- other factors beyond price may determine decision e.g. quality of service
- Contracts may exist which mean consumers are unable to switch until the contract expires
- Consumers may choose electricity based on other factors- e.g. ethical stance of the company, if they use renewable energy
- Consumers may have a supplier providing dual fuel (gas and electricity) that offer discounts
- High income earners will find AUS$1 000 to be an insignificant saving over a year and it is rational not to switch as it is a small proportion of their earnings

Other evaluative comments:

- Measurement problem - difficult to measure the precise size of the benefit which may vary for different consumers
- Magnitude - large benefit may create an incentive for more to substitute
- Time - over time consumers may realise the benefits of substituting suppliers

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 Number	Indicative content
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	• There is a finite quantity of gold so there are limits to the how much can be found • There are high start-up costs associated with starting a mine that limit the ability for new firms to start mining for gold • The future global price of gold is uncertain, prices can be volatile meaning fewer firms will be willing to invest in mining gold

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	Evaluation (8 marks) – indicative content • Magnitude – this is a significant rise in the price of gold which may with a delay cause output to rise • Time frame – over time PES tends to become more elastic as number of mines and capacity of mines can be adjusted/in the short run only one factor of production adjusted making PES more inelastic • We do not know how much the output or price varies across other years • The weather could cause flooding impacting the ability to adjust output in a particular year • Availability of stocks - gold can be stored which would suggest that it might in fact be more elastic • Significance of determinants of PES • New technology may improve the ability for supply to respond	
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.

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