



# Mark Scheme (Results)

October 2023

Pearson Edexcel International

Advanced Subsidiary

In Economics (WEC11)

Unit 1: Markets in action

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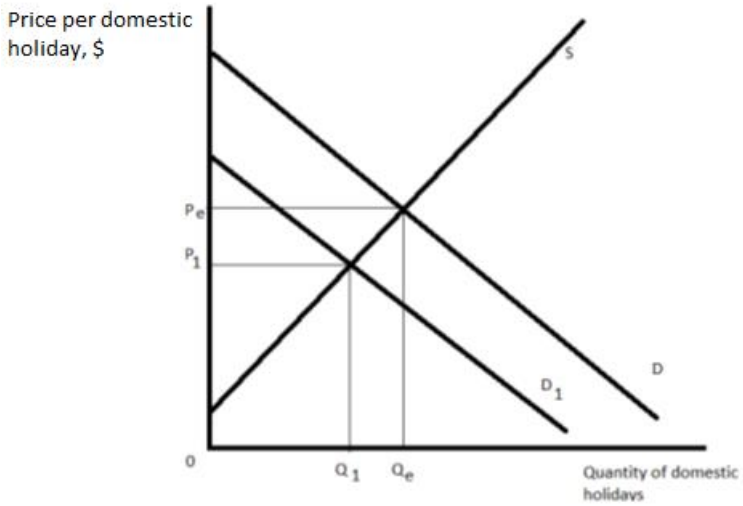
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## Section A

Question	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because this illustrates that the market is functioning correctly</p> <p><b>B</b> is not correct because this is an example of market failure</p> <p><b>C</b> is not correct because this is government intervention succeeding in eliminating the market failure</p>	(1)
2	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because increased unemployment means that the economy operates further inside the PPF</p> <p><b>C</b> is not correct because an improvement in technology would result in the PPF shifting outwards</p> <p><b>D</b> is not correct because an increase in immigration will result in an increase in productive potential</p>	(1)
3	<p>QS8: Make calculations of elasticity and interpret the result</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because the PED value for diesel is the only type of car whose demand is inelastic</p> <p><b>B</b> is not correct because the demand for petrol and electric cars is elastic</p> <p><b>D</b> is not correct because the demand for electric cars is elastic so increasing the price will result in a decrease in total revenue</p>	(1)
4	<p>QS4: Construct and interpret a range of standard graphical forms</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because the market equilibrium quantity is at <math>Q_1</math></p> <p><b>B</b> is not correct because the social optimum quantity is at <math>Q_2</math></p> <p><b>C</b> is not correct because the welfare gain area is equal to the area UWX</p>	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because inertia is about consumers finding that the effort to secure a better deal is too great</p> <p><b>B</b> is not correct because the free-rider problem is associated with public goods</p> <p><b>D</b> is not correct because a market bubble emerges when the price of an asset rises above its true value</p>	(1)

<p><b>6</b></p>	<p><b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS8:</b> Make calculations of elasticity and interpret the result  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because an increase in the price of one complement would result in a reduction in the quantity demanded for the other complement  <b>C</b> is not correct because a change in the price of one good causes a change in demand for the other good  <b>D</b> is not correct because there is no information on income</p>	<p><b>(1)</b></p>
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**Section B**

<b>Question</b>	Draw a diagram to illustrate the likely impact of this change in real incomes on the equilibrium price and quantity for domestic holidays in Laos.	<b>Mark</b>
7	<p><b>Answer</b></p> <p><b>Knowledge 1, Application 3</b>            Quantitative skills assessed:  <b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS8:</b> Make calculations of elasticity and interpret the result.  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <p>1 mark for showing knowledge on diagram</p> <ul style="list-style-type: none"> <li>• Original supply and demand <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 3 marks for the following information included on diagram:</p> <ul style="list-style-type: none"> <li>• Original equilibrium price and quantity <b>(1)</b></li> <li>• Demand shifted to the left <b>(1)</b></li> <li>• New equilibrium price and quantity <b>(1)</b></li> </ul> 	(4)

<b>Question</b>	With reference to switching banks, explain the difference between 'herding' and 'inertia'.	<b>Mark</b>
<b>8</b>	<p><b>Answer</b></p> <p><b>Knowledge 2, Application 2</b></p> <p>Quantitative skills assessed:</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <p>1 mark for understanding of 'herding'</p> <ul style="list-style-type: none"> <li>• Where consumers make choices based on the decisions of others /friends/family <b>(1)</b></li> </ul> <p>1 mark for understanding of 'inertia'</p> <ul style="list-style-type: none"> <li>• Where people think the effort of switching is too great / are too lazy to switch <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>2 marks for reference to data</p> <ul style="list-style-type: none"> <li>• Herding - 39% use the same bank as their parents <b>(1)</b></li> <li>• Inertia - 13% said that switching was too much time and effort <b>(1)</b></li> </ul>	<b>(4)</b>

Question	With reference to Thailand, explain one role of financial markets.  <b>Answer</b>	<b>Mark</b>
<b>9</b>	<p><b>Knowledge 1, Application 1, Analysis 2</b></p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <p>1 mark for one role e.g.:</p> <ul style="list-style-type: none"> <li>• to facilitate saving/</li> <li>• to make funds available to businesses/governments/ individuals/</li> <li>• to facilitate the exchange of goods and services/</li> <li>• to provide forward markets in commodities and currencies/</li> <li>• to provide a market for equities</li> <li>• to provide a market for buyers and sellers to exchange financial goods and services <b>(1K)</b></li> </ul> <p><b>Application</b></p> <p>1 mark for applying to stem e.g.:</p> <ul style="list-style-type: none"> <li>• During 2022 in Thailand 10% of income was saved/</li> <li>• Banks made loans to the private sector of THB 4 809bn in October 2022 <b>(1AP)</b></li> </ul> <p><b>Analysis</b></p> <p>up to 2 marks for linked expansion, e.g.</p> <ul style="list-style-type: none"> <li>• It allows individuals to save up for a later purchase <b>(1AN)</b> such as a deposit for a house <b>(1AN)</b></li> <li>• It allows firms to borrow money <b>(1AN)</b> to make investments in new capital goods/ help the business to grow <b>(1AN)</b></li> <li>• Consumers can pay for goods and services <b>(1AN)</b> and the funds are transferred to the business / using credit cards where funds are transferred from the credit card company to the business <b>(1AN)</b></li> <li>• It allows businesses to make purchases for future deliveries <b>(1AN)</b> at a set price in the future <b>(1AN)</b></li> <li>• It enables firms to sell shares <b>(1AN)</b> to raise for finance for expansion <b>(1AN)</b></li> </ul>	<b>(4)</b>

Question	<p><i>Ceteris paribus</i>, calculate the price elasticity of supply for cocoa. Show your working.</p> <p><b>Answer</b></p>	Mark
10	<p><b>Knowledge 1, Application 3</b> Quantitative skills assessed: <b>QS8:</b> Make calculations of elasticity and interpret the result. <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p> <p><b>Knowledge</b> 1 mark for definition/the formula for price elasticity of supply  <math display="block">\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}} \quad (1)</math></p> <p><b>Application</b> Up to 3 marks for calculations:</p> <ul style="list-style-type: none"> <li>• Change in quantity  <math>5\,242\,000 - 4\,741\,000 = 501\,000</math>  Change in quantity <math>\div</math> original quantity <math>\times 100</math>  <math>501\,000 \div 4\,741\,000 \times 100 = 10.57\% (10.5673908)</math>  <b>(1)</b></li> <li>• Change in price  <math>2\,770 - 2\,131 = 639</math>  Change in price <math>\div</math> original price <math>\times 100</math>  <math>639 \div 2\,131 \times 100 = 29.99\% (29.9859221)</math>  <b>(1)</b></li> </ul> <p><math display="block">\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}</math></p> $10.57 \div 29.99 = 0.35 \quad (1)$ <p><b>NB: if correct answer (e.g. 0.35) is given, award full marks regardless of working.</b>  <b>Accept reasonable rounding from full calculation</b>  <b>Award 3 marks if percentage sign is added to the correct PES value</b></p>	(4)



Question	Answer	Mark
<p><b>11</b></p>	<p><b>Knowledge 1, Application 1, Analysis 2</b></p> <p>Quantitative skills assessed:  <b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <ul style="list-style-type: none"> <li>1 mark for definition of indirect tax e.g.: tax on expenditure/spending/goods and services <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>1 mark for pivoting supply to the left <b>(1)</b></p> <div data-bbox="379 860 1082 1348" data-label="Figure"> </div> <p><b>Analysis</b></p> <p>Up to 2 marks for explaining or showing diagrammatically an impact e.g.:</p> <ul style="list-style-type: none"> <li>Price rises/ from <math>P_e</math> to <math>P_1</math> <b>(1)</b></li> <li>Quantity falls/ from <math>Q_e</math> to <math>Q_1</math> <b>(1)</b></li> <li>Government revenue is <math>BFGP_1</math> <b>(1)</b></li> <li>Producer incidence is <math>HFGP_e</math> <b>(1)</b></li> <li>Consumer incidence is <math>BHP_eP_1</math> <b>(1)</b></li> <li>Producer surplus decreases <b>(1)</b> from <math>CEP_e</math> to <math>BEP_1</math> <b>(1)</b></li> <li>Consumer surplus decreases <b>(1)</b> by <math>BCP_eP_1</math> <b>(1)</b>/ <math>ACP_e</math> to <math>ABP_1</math> <b>(1)</b> <b>OR</b></li> <li>Consumer surplus <math>ACP_e</math> to <math>ABP_1</math> <b>(1+1)</b></li> </ul>	<p><b>(4)</b></p>

### Section C

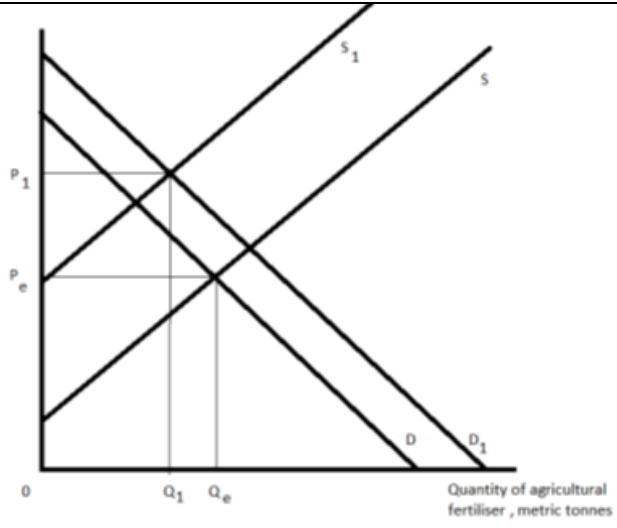
<b>Question</b>	Define the term 'tradeable pollution permit scheme.' (Extract B, line 16)	<b>Mark</b>
<b>12 (a)</b>	<b>Answer</b> <b>Knowledge 2</b> Up to 2 marks for defining 'tradeable pollution permit scheme.' e.g.: <ul style="list-style-type: none"><li>• Where firms are permitted/allowed to pollute up to a certain level <b>(1)</b></li><li>• Any excess permits can be sold/firms can buy additional permits when needed <b>(1)</b></li><li>• Fertiliser manufacturers are part of the European Union's tradeable pollution permit scheme <b>(1)</b></li></ul>	<b>(2)</b>

Question	With reference to Extract B, explain whether the supply of phosphate rock is likely to be price elastic or price inelastic. <b>Answer</b>	Mark
<b>12 (b)</b>	<p><b>QS8:</b> Make calculations of elasticity and interpret the result.  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge 2 Application 2</b></p> <p><b>Knowledge</b>  1 mark for identifying the correct price elasticity:</p> <ul style="list-style-type: none"> <li>• Supply is price inelastic <b>(1)</b></li> </ul> <p>1 mark for understanding price inelastic supply</p> <ul style="list-style-type: none"> <li>• A change in price results in a less than proportionate change in quantity supplied/</li> <li>• The PES is between 0 and 1/</li> <li>• Diagram showing inelastic supply/</li> <li>• Cannot respond quickly/in the short run/difficult to respond to changes in price <b>(1)</b></li> </ul> <p><b>Application</b>  Up to 2 marks for application:</p> <ul style="list-style-type: none"> <li>• 85% of the world supply comes from just five countries <b>(1)</b></li> <li>• Morocco produces 70% of total production <b>(1)</b></li> <li>• It is a finite resource/limited in supply <b>(1)</b></li> </ul>	<b>(4)</b>

<b>Question</b>	With reference to Figure 1 and Extract A, analyse <b>one</b> demand factor <i>and</i> <b>one</b> supply factor that caused the price of fertiliser to increase between January 2021 and April 2022.  Illustrate your answer with a supply and demand diagram.  Answer	<b>Mark</b>
<b>12 (c)</b>	<p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Quantitative skills assessed:  <b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <p>Up to 2 marks for the diagram showing:</p> <ul style="list-style-type: none"> <li>• Original supply, demand and equilibrium price and quantity <b>(1)</b></li> <li>• New equilibrium price and quantity having correctly shifted both supply <b>and</b> demand <b>(1)</b></li> </ul> <p><b>Analysis</b></p> <p>1 mark for demand factor e.g.:</p> <ul style="list-style-type: none"> <li>• Demand for fertiliser increased by 6.3%/</li> <li>• Governments paying subsidies to farmers during the global health crisis/</li> <li>• Higher crop prices in 2021 provided an incentive for farmers to increase the quantity of crops that they grew <b>(1)</b></li> </ul> <p>1 mark for supply factor e.g.:</p> <ul style="list-style-type: none"> <li>• Poor weather caused some factories that manufacture fertiliser to shut down/</li> <li>• Winter storms and Hurricane Ida disrupted production in the USA/</li> <li>• Costs of production also rose as a result of a significant increase in the world price of gas <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for diagram or reference to Figure 2.:</p> <ul style="list-style-type: none"> <li>• Shift demand to the right <b>(1)</b></li> <li>• Shift supply to the left <b>(1)</b></li> <li>• January 2021 price per tonne was just above \$400 increasing to approximately \$950 in April 2022 <b>(1)</b></li> </ul>	

Price of fertilizer,  
per metric tonne

\$



(6)

Question	With reference to Extract C, examine <b>two</b> likely effects of the subsidies paid by Canada's Government to farmers who use more organic farming methods.	Mark
12(d)	<p><b>Answer</b></p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms  Knowledge 2, Application 2, Analysis 2, Evaluation 2  Knowledge and Analysis  Up to 2 marks for identifying two effects and up to 2 marks for linked explanations, e.g.:</p> <ul style="list-style-type: none"> <li>• The subsidy should reduce farmers' reliance on fertiliser (1K) helping reduce the environmental damage (1AN)</li> <li>• Farmers will research new production methods (1K) that will use less fertiliser to help reduce carbon emissions (1AN)</li> <li>• Farmers will be encouraged to adopt more organic production methods (1K) as the subsidy reduces costs of production of these methods (1AN)</li> <li>• Output may fall (1K) as fertiliser use is discouraged (1AN)</li> <li>• Increased organic output (1K) may result in increased employment in the sector (1AN)</li> <li>• Job losses in the fertiliser industry (1K) as the quantity of fertiliser consumed falls (1AN)</li> <li>• Reduces use of fertiliser (1K) helping to reduce external costs (1AN)</li> <li>• Lower organic food prices (1K) will result in increased consumer surplus (1AN)</li> <li>• Two marks for diagram showing the correct shift in supply (1K) and the impact of the subsidy on equilibrium price/quantity (1AN)</li> </ul> <p>Application  Up to 2 marks for application to Extract C</p> <ul style="list-style-type: none"> <li>• Fertilisers have accounted for 10% of Canada's greenhouse gas emissions since 1990 (1AP)</li> <li>• To reach its 2030 greenhouse gas emissions target it needs to reduce its fertiliser use (1AP)</li> <li>• CA\$ 750 million to farmers over ten years to use more organic farming methods to achieve this target (1AP)</li> </ul> <p>Evaluation  Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.:</p> <ul style="list-style-type: none"> <li>• CA\$ 750m subsidy may be too small to have a substantial impact on changing farmers' behaviour (1+1)</li> <li>• Subsidies will have an opportunity cost as the funds cannot be used to pay for e.g. healthcare or education (1+1)</li> <li>• Farmers may become dependent on the subsidies resulting in a need to pay them for a long time (1+1)</li> </ul>	(8)

Question	With reference to Extract B, discuss the external costs associated with the production and the use of fertiliser. Illustrate your answer with an appropriate diagram. Indicative content	
12(e)	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>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.</p> <p><b>Quantitative skills assessed</b></p> <p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge, Application and Analysis (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• External costs- negative impact on third parties</li> <li>• Between 1960 and 2019 there was a ten-fold increase in the use of fertiliser</li> <li>• The production of fertiliser requires substantial use of non-renewable resources such as gas and coal. It is responsible for 1% of all global energy use and 1.4% of all carbon emissions - this leads to the greenhouse effect and global warming- increasing the risk of flooding/droughts so affecting income of farmers</li> <li>• Fertiliser is produced by applying acids to phosphate rock - these acids may leak into the environment causing illness and additional health costs</li> <li>• The fertilisers that are used on farmland are often washed into rivers and lakes. This causes algae to develop and oxygen levels to decrease, resulting in a decline in fish stocks - impacting those in the fishing industry who will find it more difficult to find fish</li> </ul> <div data-bbox="384 1227 1120 1778" data-label="Figure"> </div> <ul style="list-style-type: none"> <li>• Diagram showing MSC above MPC</li> <li>• <math>Q_{me}</math> above <math>Q_{so}</math> shows overproduction</li> <li>• <math>P_{me}</math> below <math>P_{so}</math> shows price paid is below social optimum</li> <li>• Welfare loss triangle due to third party impacts</li> </ul>	
G	Mark	Descriptor
	0	No rewardable material

<b>Level 1</b>	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.
<b>Level 2</b>	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.
<b>Level 3</b>	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.
<p><b>Evaluation (6 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Magnitude- a wide range of significant external costs</li> <li>• 1.4% of total carbon emissions- small relative to other sectors/a significant impact</li> <li>• Fertiliser use has helped increase crop production four-fold- increasing revenues for crop growers and manufacturers</li> <li>• Fertiliser production results in external benefits in terms of increased food supply and employment opportunities</li> <li>• Difficult to measure the size/value of external costs</li> <li>• Production of phosphate rock is focused mainly in 5 countries with 70% produced in Morocco so the external costs will be concentrated in these countries</li> <li>• Crop production using fertiliser is used by farmers globally and therefore has a global impact</li> <li>• The European Union’s tradeable pollution permit scheme applies to fertiliser manufacturers – if the EU reduces the number of permits available this will reduce production of fertiliser and its associated external costs</li> </ul>		
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	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

<p><b>Question</b></p>	<p>In the UK the maximum price for a unit of electricity for domestic consumers was £0.28 per kilowatt hour in September 2022. This was increased by the Government to £0.34 per kilowatt hour in October 2022.</p> <p>Evaluate the microeconomic effects of an increase in the maximum price of electricity.</p> <p>Indicative content</p>
<p><b>13</b></p>	<p><b>Quantitative skills assessed</b></p> <p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>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.</p> <p><b>Knowledge, application and analysis (12 marks) – indicative content</b></p> <p>Increase the maximum price</p> <ul style="list-style-type: none"> <li>• Maximum price is a price ceiling above which firms cannot charge</li> <li>• Maximum price set below the equilibrium price</li> <li>• Maximum price is increased from max P to max P<sub>1</sub></li> <li>• Maximum price for a unit of electricity was £0.28 per kilowatt hour in September 2022. This was increased by the Government to £0.34 per kilowatt hour in October 2022</li> <li>• Makes the product less affordable than it was but more affordable than equilibrium price</li> <li>• Consumers have less income available for consuming other goods and services</li> <li>• Leads to a contraction of demand – Q<sub>D</sub> to Q<sub>d1</sub></li> <li>• Results in lower quantity demanded compared to lower maximum price</li> <li>• Leads to an extension of supply- Q<sub>s</sub> to Q<sub>s1</sub></li> <li>• Results in higher quantity supplied compared to lower maximum price</li> <li>• Creates a disequilibrium</li> <li>• Excess demand is reduced Q<sub>D</sub>-Q<sub>S</sub> to Q<sub>d1</sub>-Q<sub>s1</sub></li> </ul> <div data-bbox="427 1458 935 1783" style="text-align: center;"> </div> <ul style="list-style-type: none"> <li>• The lower maximum price may have resulted in some electricity companies shutting down- the higher maximum price should result in fewer firms shutting down</li> <li>• This was due to reduced profitability and loss making of smaller firms in the market before the maximum price was increased</li> <li>• Consumers are likely to buy more energy saving devices e.g. electric blankets and to invest in home insulation</li> </ul>

		<ul style="list-style-type: none"> <li>Reduced electricity consumption would result in lower electricity generation and reduced levels of external costs</li> </ul>
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>
<b>Level 2</b>	4–6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>
<b>Level 3</b>	7–9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>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.</p>
<b>Level 4</b>	10–12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>
<p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>Magnitude of the increase in maximum price is large- so significant impact</li> <li>Electricity companies are more likely to survive</li> <li>Maximum price of electricity affects domestic consumers and not businesses</li> <li>Price elasticity of demand- if inelastic there will be a smaller impact on demand</li> <li>Volatile prices so the price could fall below the maximum price</li> <li>Risk of government failure- government intervention leads to net welfare loss: <ul style="list-style-type: none"> <li>information gaps result in wrong level of maximum price</li> <li>unintended consequences</li> <li>excessive administrative costs</li> </ul> </li> <li>Overall impact depends on how much real incomes change</li> <li>Consumers may not pay more as they may reduce their usage of electricity</li> </ul>		
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	<p>Identification of generic evaluative comments.</p> <p>No supporting evidence/reference to context.</p> <p>No evidence of a logical chain of reasoning.</p>

<b>Level 2</b>	4-6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	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.

<b>Question</b>	<p>Many consumers do not buy travel insurance before going on holiday abroad despite substantial costs if they need medical care.</p> <p>Many car drivers do not provide complete and accurate information to car insurance companies when insuring their cars.</p> <p>Evaluate the microeconomic effects of imperfect information on insurance markets.</p> <p><b>Indicative content</b></p>	
<b>14</b>	<p><b>Quantitative skills assessed</b></p> <p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>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.</p> <p><b>Knowledge, application and analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Information failure- where economic agents lack the information to make optimal decisions</li> <li>• Asymmetric information- where economic agents have different levels of information</li> <li>• Market failure- where the market leads to an inefficient allocation of resources</li> <li>• Many consumers holiday abroad without travel insurance despite substantial costs when they need medical care e.g. many are unaware of the possible large costs if they need to be returned home in an emergency</li> <li>• This results in underconsumption of travel insurance</li> <li>• When taking out health insurance policies many consumers fail to declare all information. This means the policy offered does not take account of the risks for the individual- it means that the insurance company may end up paying out more in claims</li> <li>• Incomplete information may result in claims being rejected</li> <li>• For example, on medical or health insurance they may not declare they smoke or drink alcohol regularly which increases the risk of a claim</li> <li>• Car drivers don't tell the whole truth on applications- meaning that the driver is a higher risk and therefore more likely to claim</li> <li>• When making claims the consumer may leave information out that would result in a lower or no payout- for example, they left the car or house unlocked or without the security alarm set</li> <li>• Imperfect information results in insurance companies making larger payouts increasing costs</li> <li>• These higher costs result in consumers having higher premiums / paying more for their insurance policy</li> </ul>	
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.

<b>Level 1</b>	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.
<b>Level 2</b>	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.
<b>Level 3</b>	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.
<b>Level 4</b>	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.
<p><b>Evaluation (8 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Market failure may be reduced as the insurance company can gain permission to find medical records/ contact doctor</li> <li>• Information can be provided about costs of medical evacuation so consumers can take account of these costs</li> <li>• Consumers may have the information but with the chance of it happening being so small they calculate that is a risk worth taking not having the insurance</li> <li>• Consumers not taking out medical/ health insurance may be because they cannot afford the premium</li> <li>• The internet may help close the information gap that results in the market failure</li> <li>• Market failure in insurance markets may be the result of irrational behaviour rather than the result of imperfect information (habitual behaviour, inertia, herding and calculation problems)</li> <li>• Insurance companies may share information on consumers who may say they have not claimed in 5 years. This can be checked by the insurance company</li> </ul>		
<b>Level</b>	<b>Mark</b>	<b>Descriptor</b>
	0	No rewardable material.
<b>Level 1</b>	1-3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4-6	Evidence of evaluation of alternative approaches.

		Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	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.