



Mark Scheme (Results)

October 2017

Pearson Edexcel International Advanced Subsidiary in Economics (WEC01) Paper 01 Markets in Action





Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at <u>www.edexcel.com</u> or <u>www.btec.co.uk</u>. Alternatively, you can get in touch with us using the details on our contact us page at <u>www.edexcel.com/contactus</u>.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

October 2017 Publications Code WEC01_01_1710_MS All the material in this publication is copyright © Pearson Education Ltd 2017



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 C (1 mark) Explanation (up to 3 marks) Definition of PPF (the maximum combination of goods that can be produced with all available resources) (1) Explanation that shows economic decline/ reduction in production potential/ reduction in GDP (1) Application: Earthquake will destroy production potential (1) as there are less factories to work in/ less machines to produce output with (1) The economy is efficient as it is using all of its available resources at points X and Y are both on the PPFs (1) 	
	 Rejection marks Do not double award Option A: immigration would see an increase in the supply of labour and therefore increase in productive potential/ more labour would lead a shift out of the production possibility frontier (1) Option B: the discovery of new technology will make the production process quicker enabling more resources to be produced and increasing productive potential/ better technology would cause the PPF to shift out and not in (1) Option D: redistributing resources from capital to consumer would see a movement along the PPF curve (1) 	(4)



Question Number	Answer	Mark
2	 Answer B (1 mark) Explanation (up to 3 marks) Definition of a free market economy- (where the allocation of resources is decided by the price mechanism without government intervention) (1) Identification of example of market failure where over provision may occur (negative externalities, imperfect information) / Identification that the inefficient allocation of resources is market failure (1) Explanation of market failure (1) Explanation of market failure (e.g. market does not take account of external costs so there is over production / some consumers lack information for example on problems of consuming a good so may over consume products) (1) Example of product that might be over produced linked to external cost e.g. alcohol. Cigarette fuel, sugar, fats (1) Diagram illustrating over production- e.g. external costs (1) 	
	 Do not double award Option A: a free market economy does not involve government intervention/ decisions are left to price mechanism (1) Option C: the profit incentive is an advantage as it means scarce resources are not wasted (1) Option D: the invisible hand leads firms to focus resources on products that are in demand to maximise profits which is an advantage of the free market (1) 	(4)



Question Number	Answer	Mark
3	 Answer B (1 mark) Explanation (up to 3 marks) Definition or formula of income elasticity of demand (responsiveness of quantity demanded to a change in income) (1) Identification of tobacco being a normal good in China (1) Definition of a normal good (has a positive YED) (1) Show calculation 10x0.9 = 9% (1) As incomes rise in a country the quantity demand will rise by a smaller proportion / inelastic YED so the change in quantity of tobacco is smaller than change in income (1) 	
	 Rejection marks Do not double award Option A: 10 x 1.6= 16% increase in QD and not a decrease / the value of YED is positive for so demand would increase (1) Option C: -10 x +0.43 = -4.3% which is a decrease not an increase in quantity demand / the value of YED is positive for so demand would increase (1) Option D: 10 x 0.23 = 2.3% not 23%/ the change in income would need to be 100% to bring about a 23% increase in QD (1) 	(4)



Question Number	Answer	Mark
4	 Answer A (1 mark) Explanation (up to 3 marks) Definition of indirect tax (tax on expenditure/ consumption / paid by third party) OR Definition of producer or consumer surplus (1) Price for a hotel room per adult per night Diagram/ explanation of shifting supply to left showing new equilibrium price and quantity (1) Identification that consumer surplus falls from PeVZ to P₁UZ (1)- must identify the change in area in explanation or explicitly on diagram Identification that producer surplus falls from PeVX to P₁UY (1) - must identify the change in area in explanation or explicitly on diagram Option B: the producer surplus falls from PeVX to P₁UY and does not rise (1) Option D: the consumer surplus falls from PeVZ to P₁UZ and does not rise (1) 	
		(4)



Question Number	Answer	Mark
5	Answer D (1 mark)	
	 Explanation (up to 3 marks) Definition of a public good (non-excludable and non-rival) (1) Explanation of free-rider- where individuals will consume a good without paying as it is difficult to exclude them (1) This makes it difficult for firms to make a profit out of the production of public goods (1) By not providing lighthouses it will be a danger to boats and ships so the government steps in to provide them (1) 	
	 Rejection marks Do not double award Option A: the government will not want to increase external costs/the provision of a lighthouse could reduce external costs (1) Option B: if the price mechanism allocated resources efficiently there would be no need for government intervention (1) Option C: it is market failure where there would be an under provision of lighthouses which is why the government built the lighthouses (1) 	(4)



Question	Answer	Mark			
Number					
6	Answer B (1 mark)				
	 Explanation (up to 3 marks) Definition or formula for XED- responsiveness of Quantity Demanded of good x to a change in Price of good y/ %ΔQDx÷ %ΔPy (1) Positive cross price elasticity means it is a substitute (1) So when the price of bus journeys rises then the demand for taxi journeys will rise (1) When choosing to make a journey customers can switch between using buses or taxis (1) 				
	 Rejection marks Do not double award Option A: motor vehicles and petrol are jointly demanded as you need petrol to run cars/ XED with be negative making them complements (1) Option C: potatoes and aeroplanes are unrelated / XED will be zero (0) (1) Option D: pens and paper are jointly demanded as you use pens to write on paper / the XED will be negative making them complements (1)				
		(4)			



Question Number	Answer	Mark
7	Answer D (1 mark)	
	 Explanation (up to 3 marks) Minimum wage defined (1) With minimum wage the quantity of labour demanded would fall from Q₁ to Q₂ / quantity of labour supplied would rise from Q₃ to Q₄ (1) Unemployment / excess supply of labour was Q₃-Q₁ (1) and is now Q₄-Q₂ (1) or annotated on diagram The minimum wage means the increase in unemployment is Q₄-Q₂ minus Q₃-Q₁ (1) or annotated on diagram The higher minimum wage increases production costs and firms will lay off workers to offset costs (1) 	
	Wages per hour W ₂ W ₁ W _e U ₁ U ₂ U	
	 Do not double award Option A: it is excess supply and not excess demand/ at higher wages supply will extend and demand contract causing excess supply (1) Option B: at higher wages firms will be less profitable so demand for labour contracts/ Quantity demanded falls from Q1 to Q2 (1) 	(4)
	 Option C: the employment falls from Q₁ to Q₂ (1) 	



Question Number	Answer	Mark
8	Answer A (1 mark)	
	 Explanation (up to 3 marks) Definition of government failure- where government intervention leads to a net welfare loss (1) Agricultural stabilisation policies aim to stabilise producer incomes / stabilise the price of a commodity or agricultural product / the government will purchase stock when the price goes below the minimum price / sell stock when the price goes above the maximum price (1) Government will then have to store and care for the crop which costs money / Admin costs will be involved in organising storage, purchase and sales (1) If the admin costs exceed benefits of stabilisation then government failure Reward buffer stock diagram/ guaranteed minimum price diagram that shows cost to government- in red (1) 	
	 Rejection marks Do not double award Option B: eliminating shortages and surpluses shows the government is helping the efficient running of the market (1) Option C: this is wrong because price stability is the purpose of government intervention to help 	(4)



 Option D: the stable price would encourage more investment which is not government failure (1) 	

Section B: Data response

- NB: KAA marks relates to those awarded for AO1, AO2 and AO3
- NB: Evaluation marks relates to those awarded for AO4

Question Number	Answer	Mark
9(a)	Knowledge, application and analysis (up to 6 marks)	
	 Explicit reference to Extract 1 (e.g revenue increased to \$3.2 billion) (1) Due to increased demand for New Zealand films the demand for labour will rise (1) This is due to the demand for labour being derived from the demand for the final product (1) Diagrammatic analysis which shows: A shift to the right of the demand curve for labour (1) Original equilibrium wage and quantity (1) New equilibrium wage and quantity (1) 	
	Wages rates W1 W1 W1 Demand 1 Demand 1 Demand 1 Demand 1 Demand 1 Demand 1	
		(6)



Question Number	Answer	Mark
9(b)	Knowledge, application and analysis (Up to 4 marks)	
	 Definition of a positive statement: (one that is based on fact/ objective approach/ can be tested as true or false / value free/ Scientific approach to Economics (1) 	
	 Definition of a normative statement:(one that is based on a value judgement/ subjective approach/ cannot be tested as true or false/ non-scientific approach to Economics) (1) 	
	 Title which is normative statement: 'Multiplex Cinema prices are unfair to Indian consumers' (2) 	
	 Reference to positive statement within Extract 1. (1) 	
	Do not accept examples from within extracts	
		(4)



Question Number	Answer		Mark
9(c)			(10)
	 Extennot i Example The find and a to the third firms This firms <	on and analysis – indicative content rnal benefits- positive impact on third parties nvolved in a transaction es from data- films create an interest in the country and to attract tourists. E.g. The Lord of the Rings Hobbit films were produced in New Zealand a significant number of tourists then travelled e country to visit the locations from the films. will increase employment and revenues for s at these locations d party groups such as hotels in New Zealand ikely to benefit from higher occupancy/ with er demand for hotels rooms the price may rise increased demand for visiting New Zealand party groups such as companies selling ts to the country will benefit ure/ tourist destinations/ restaurants will efit from increased visitor numbers/ revenues eased tax revenues for the government from a tourists ram to illustrate the external benefit including are gain	(10)
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-2		
2	3-4	Understanding of the effect of external benefits. 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 the external benefits of industry with appropriate application to contex Material is presented in a relevant and logical Some punctuation and/or grammar errors may found, but the writing has overall clarity and c	kt. way. y be



Evaluation -	 Exte litter jourr beau Magr depe Time be a an is it mo It so comi rising It is 	rnal costs may emerge such as tourists ing or damaging the environment/ more neys via aeroplane/ damaging areas of natural
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	on and analysis – indicative content	
	 Maxi able The maxi Current ticke cann With are content Firms The maximum additic keep quiet Allow Refer of det 	mum price is the highest price firms are to charge customers recommendation is to introduce a mum price at Rs120 ently customers have to spend Rs300 for a t at a multiplex on weekends- many ot afford these prices such high prices multiplexes in Karnataka on average less than 50% capacity s are likely to use more of their capacity maximum price is likely to generate cional revenues for multiplex owners and the cinemas busy even during otherwise times. v relevant diagrammatic analysis rence to contraction supply and extension emand rence to shortage	
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the impact of m for multiplexes. Material presented is often irrelevant and la organisation. Frequent punctuation and/or errors are likely to be present and the writi generally unclear.	acks grammar
2	 4-6 Understanding of the impact of maximum price on multiplex cinemas. This may be supported by an accurately labelled diagram. Material is presented with some relevance but there a likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence. 		by an but there are anisation. ely to be
3	7-8	Clear understanding of the impact of maximultiplex cinemas. This may be supported accurately labelled diagram which is explai applied effectively. Material is presented in a relevant and logi Some punctuation and/or grammar errors found, but the writing has overall clarity ar	by an ned and cal way. may be



Evaluation -	 PED will s PES Magi refer Time price Whili less eme Enfo pricii Som ways drink Corr 	important as if inelastic the price reduction see total revenue fall/ elastic rise would be perfectly inelastic in the short run nitude of maximum price is important – rence to Rs 180 or the percentage change e period: inflation may erode the maximum and it will need reviewing st it makes it more affordable there will be opportunity to find cinema is the shortage
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without
	2.4	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,		
	 Subsidy- cash grant paid to encourage consumption/ production This will lower the costs of production Supply shifts to the right Price falls (P to P1) for final product as costs to produce cinemas fall Quantity rises (Q to Q1) as production of cinemas becomes cheaper than other activities Cost of subsidy to the government (ABEP1) Producer subsidy (ABCP) and consumer subsidy (CEP1P) Producer surplus rises Consumer surplus rises Revenue from consumers rises P x Q to P1 x Q1 But they also receive revenue from government in terms of the subsidy- so total revenue will be A X Q1 	
	 Diagram Price Supply Supply + subsidy A p p p p p p p p p p p p p p p p p p p	



Level	Marks	Descriptor		
0	0	A completely inaccurate response.		
1	1-3	Shows some awareness of how subsidy will affect market		
		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 how subsidy will affect cinema market. 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 how subsidy will affect the cinema market. 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 -	tion – indicative content			
	 Magr Rs5 Rs2 Time built payn Oppore educt Subs trans impr Exter litter 	nitude- depends on size of subsidy- 000 000 for those building new cinemas and 500 000 for renovating old cinemas a lag- may take time before the cinemas are and help lower prices/ time lag before nent made to firms ortunity costs- spending money on cinemas es less money for other purposes- e.g. ation and health sidy may not be used in right way and sferred to cinema operators' profits and not oving cinemas. rnal costs- extra visitors may cause pollution,		
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			
3	5-6	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 6 marks)	
	 Poor harvest reducing supply (1) Crop affected by a wet spring and hot, dry weather/flooded field destroyed most of crop (1) Potato disease destroy crops (1) Diagram 	
	Price of potatoes Supply 1	
	P1 P Demand	
	 Quantity of potatoes Supply shift left (1) Old equilibrium P and Q (1) New equilibrium P1 and Q1 (1) 	(6)



Question Number	Answer	Mark
10(b)	 Knowledge, Application and Analysis (Up to 4 marks) PED defined or formula (1) 	
	 Price elastic- the PED between -1 and - infinity (1) Price inelastic- the PED between 0 and -1 (1) 	
	Maximum 2 marks for definitions	
	 Diagrams to show elasticity (1) Many customers became addicted to junk food and continued to buy even when prices of maize, rise and wheat fell (1) Therefore even when price rises customers will continue to buy junk food (1) 	
	 will continue to buy junk food (1) Therefore the PED for junk food is likely to be inelastic (1) 	(4)



Question Number	Answer		Mark		
10(c)			(10)		
Knowledge, application and analysis – indicative content					
	 Definition of external costs- negative impacts on third parties Market failure- inefficient allocation of resources Diagram illustrating external cost with welfare loss Processed "junk-food" is high in sugars, fats and salt The problem is that higher levels of obesity will costs health services money as more people need treatment for illness and disease. Costs to third parties e.g. tax payers Businesses suffer also as staff absence rises due to these health problems. Cost to businesses of staff shortages. Revenue for junk food companies rises Employment in junk food sector increases Junk food tends to have higher tax rates so government revenue may rise Addicted to these products shows demand inelastic- explains why demand does not fall when price of substitute falls. 				
Level	Marks	Descriptor			
0	0	A completely inaccurate response.			
1	1-2	Shows some awareness of external costs. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to			
2	3-4	be present and the writing is generally unclear. Understanding of external costs in context of junk food. 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			
3	5-6	present which affect the clarity and coherence.Clear understanding of external costs with effective 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 conte				
	 Magnitude of external costs – depends on how addicted to junk food they are Economic growth and development may raise incomes and this may reduce dependency on junk food Measurement of external costs difficult to quantify and give a monetary value to Short/ long run- may take time before external costs are realised 				
Level	Marks	Descriptor			
0	0	No evaluative comments.			
1	1-2	For identifying evaluative comments without expla			
2	3-4 For evaluative comments supported by some reasoning.				



Question	Answer		Mark			
Number	7 (15)// Cl		TIGHK			
10(d)			(14)			
Knowledge,	Knowledge, application and analysis – indicative content					
	Figure 1 The incr approac Causes • T ar fa • Lo th • R • C • C • C • C • C • C • C • C • C • C	risen to \$11.33/ hour in 2015 - from 2012 to 2015 wages have increased. rease was 2% in 2013, 3% in 2014 and thing 5% in 2015 of wage rise he amount of labour available to work as gricultural workers on farms in the USA has allen. ower supply of labour increases wages as here is contraction of demand for labour eduction in the number of migrants from lexico means supply is low and wages will end to rise if less people seek same job trengthened economy in the USA made it asier for people to find less exhausting work n other sectors such as service sector itizens in the USA are not keen to work on arvesting the crops and often do not last very ong in the job so with less supply it is a further pward pressure on wages nemployment in Washington stood at 5.8%. his is low so have to offer higher wages to ttract people eward accurate labelled diagram supporting xplanation				
Level		Descriptor				
0	0	A completely inaccurate response.	rico			
1	1-3	Shows some awareness of the causes of wage				
2	4-6	farming. 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 causes of wage rise context of farming. Material is presented in a relevant and logical Some punctuation and/or grammar errors may found, but the writing has overall clarity and c	way. y be			



Evaluation -	- indicativ	ve content		
	 V W ir M r S so so	ariation in wage changes- some areas like /ashington offered much larger wage acreases- may be more about local issues lagnitude- size of change in number of nigrants/ unemployment important hort run and long run factors- migration sues may be temporary but wages rising for ome time he shortage of labour is reducing annual fruit nd vegetable production by 9.5%, or \$3.1 illion. By offering higher wages then this otentially higher output can be harvested enerally the work is low skilled so it should be n occupation most unemployed could access. o offering higher wages will incentivise nemployed to move from benefits to mployment he change of government in US and how it night exacerbate labour shortages in griculture over the next few years (magnitude sue)		
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,	Knowledge, application and analysis – indicative content					
	 Providing accommodation Reduce the cost of living Make it cheaper to move to work on farms People will not need to commute to work People from other countries like Mexico will find it easier to move without the hassle of organising accommodation This will increase the supply of wages to the sector Reduce geographical immobility of labour as cost of moving lower Allowing more permits Means a greater supply of labour from Mexico Means people in Mexico have less of barrier to moving to work on the farms Thus increasing the supply of labour to complete work in sector 					
	 Offering medical and other benefits People more willing to move locations as they have protection in case of medical problems People more willing to move from occupations without such benefits. The reward from working in the sector are relatively higher so attracting greater supply of labour Providing training opportunities People more willing to move locations as they have better training opportunities People more willing to move from occupations without such training opportunities With more training people can complete the work more easily and find working in the sector more attractive 					
	Accept relevant government policies or					



	e	mployer actions	
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of measures. Material presented is often irrelevant and lacks organis Frequent punctuation and/or grammar errors a to be present and the writing is generally unclu-	are likely
2	4-6	Understanding of awareness of measures. Material is presented with some relevance but likely to be passages which lack proper organis Punctuation and/or grammar errors are likely present which affect the clarity and coherence	sation. to be
3	7-8	Clear understanding of awareness of measures effective application to context. Material is pre a relevant and logical way. Some punctuation grammar errors may be found, but the writing overall clarity and coherence.	s with esented in and/or
Evaluation -	- indicativ	ve content	
	 C M F D m D u a 	g accommodation ost of putting the accommodation in place ost of maintenance of accommodation lay be basic and disappoint labour amily ties may be more important espite accommodation backbreaking work hay put people off epends on the number of accommodation nits available epends on time it takes to build temporary ccommodation	
	 D D p N re T th A cl 	epends on the number of permits available epends on the time it takes to process ermits umbers coming from Mexico has fallen in ecent times hose in Mexico may not want to move just for he harvesting season dministrative costs of applying for and hecking permits medical and other benefits	



	• M	dds to the costs of the business ay help keep workforce healthier- rising
	• M	roductivity lay attract lower skilled labour from other ccupations without such benefits
	Providing training opportunities	
	th o • A	lay mean that they only work short term if ney are trained and move to better ccupations dds to costs of the business eel valued which may rise productivity
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.



Pearson Education Limited. Registered company number 872828 with its registered office at 80 Strand, London WC2R 0RL, United Kingdom