Examiners' Report
June 2017

IAL Economics WEC01 01

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Introduction

The numbers sitting this unit has increased year on year since 2014. On this paper, there are 32 marks in section A, supported multiple choice section and 48 marks in Section B, the data response section. Candidates have a choice of two data response questions, with similar numbers doing each. The quality of responses has once again improved.

Stronger responses did the following: Offered accurate definitions of key terms including positive and normative statements, consumer surplus and elasticities. Candidates were more able this series to explain habitual behaviour. Candidates were able to define renewable and non-renewable resources. It was pleasing that most linked this to examples from the data. The annotation of diagrams shifting supply or demand as appropriate and drawing new equilibria was well done by a significant number. Diagrams were well used to show how the minimum wage increased unemployment. Diagrams were well used to illustrate external costs with the social optimum, market equilibrium and welfare loss clearly identified. Better candidates identified relevant external costs but then went on to explain how the third party loses out. It was pleasing that candidates explored the impact of indirect tax on different economic agents. Candidates were able to define asymmetric information, give examples from the data and could counter this with how it might be rational behaviour given high cost. When exploring the concept of price elasticity of supply, most candidates were able to give examples from the extract and link them to the relevant elasticity. Diminishing marginal utility was not well understood. The carbon emissions scheme was misunderstood with many candidates referring to how firms are fined or taxed for going over allowance – which is incorrect. When identifying complements, candidates needed to link car insurance and breakdown insurance. Candidates need to be careful in drawing diagrams for indirect tax as only ad valorem diagrams could access the top level. When asked to look at measures, many candidates offered superficial responses on far too many measures to reduce the number of uninsured drivers.

In preparing candidates for future examinations, it is important to understand that with diminishing marginal utility the size of the increase in utility falls not total utility. Whilst candidates can define a carbon emission scheme they need to understand that going over the allowance will require buying permits from other firms with spare permits and will not involve fines or taxation. Candidates need to look for whether the tax is a specific amount or percentage and then should be able to work out whether to draw a specific tax or ad valorem tax. When asked to evaluate the impact of an indirect tax, candidates were given the figure as a percentage and should have drawn ad valorem. Many did not. When looking at a range of measures or policies candidates should look at two or three in detail.

be proven right or wrong through logic or empirical ~~empirical~~ evidence.

Statement 2 can be proven ~~or~~ right or wrong, because we can see or ~~proo~~ prove that subsidies do increase the supply or not.

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Examiner Comments

Having given the correct answer, the candidate then accesses full marks for their explanation. Firstly, they define normative statements referring to value judgments. They quote the word 'unfair' and reference this as being a value judgement which achieves a second mark. We ignored reference to opinions. The definition of positive statements makes reference to being able to prove right or wrong through empirical evidence which gains another mark. The candidate also gains credit for saying that we can prove subsidies to increase supply.

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Examiner Tip

When defining value judgements, it is helpful to refer to value judgements. Do not refer to opinions. Here they do both so are credited for reference to value judgements.

Candidates often lost one mark as they did not explain why statement 1 or 2 was normative or positive. This is one such an example achieving 1+2=3 marks.

Normative: Value judgement, cannot be proved by facts or experiments.

So statement 1 is normative for it cannot be proved by facts.

Positive: Can be proved by experiment or facts.

So statement 2 is positive for it's objective and can be proved!

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Examiner Comments

The candidate has the correct answer. The definition of normative statements clearly identifies it as a value judgement which is enough to achieve a mark. No credit for attempt to explain why statement 1 is normative. Positive statements is defined as it can be proved by experiments and is awarded 1 mark. Statement 2 is positive is not credited because it needs to explain what could be proved.
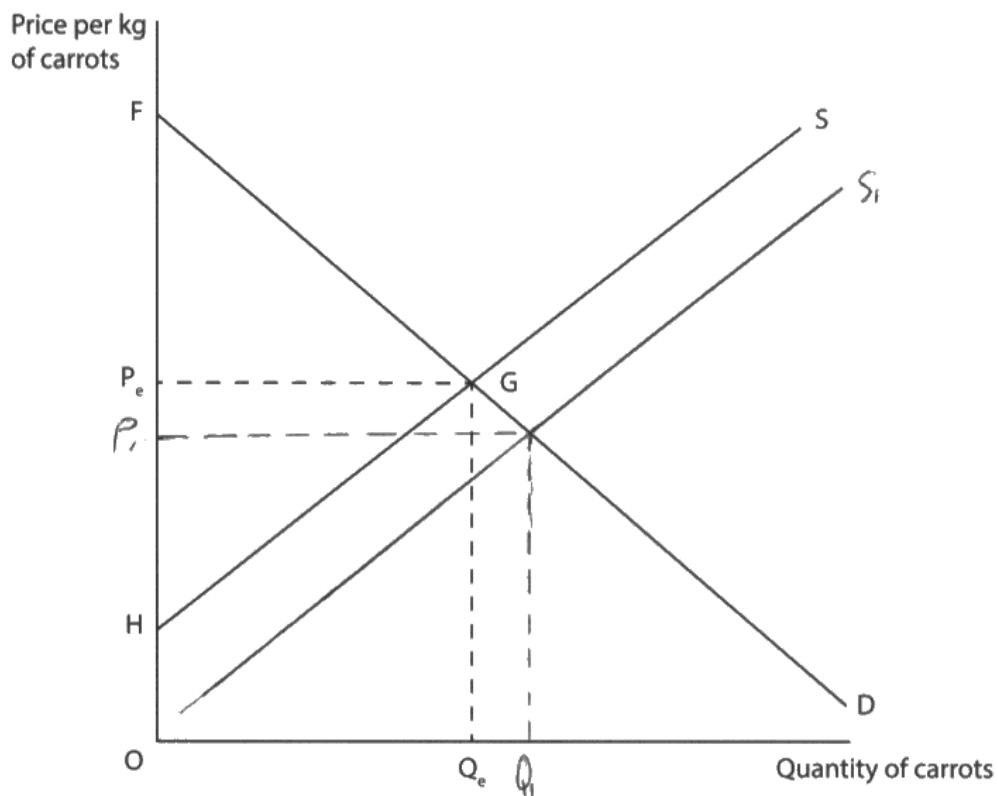
ResultsPlus
Examiner Tip

Whilst it is true that positive statements can be proved, the candidate needs to explain what can be proved – that a subsidy will cause the supply of a commodity to increase.

Question 2

The question was accessible and many candidates were able to correctly identify the key. It was pleasing that more candidates were annotating the diagram to typically achieve one mark for the shift in supply and one mark for the change in equilibrium. Some candidates continued to redraw the diagram and again, whilst they can still gain marks for this, they seem to be using their time inefficiently in drawing a diagram already drawn. Whilst most candidates defined or showed the change in consumer surplus this was the mark most likely to be missed. Too often candidates wasted time defining producer surplus which in fact did not support explaining the correct answer.

It was pleasing that an increased number of candidates annotated the diagram with most correctly shifting supply and drawing the correct labelling of the equilibrium price and quantity. Whilst this candidate gets the answer wrong, they access the two marks for the work in the diagram. Scores 0+2=2 marks.

2   The diagram shows the market for carrots where the initial equilibrium is at price P_e and quantity Q_e.

(a) Good weather conditions lead to an increase in the supply of carrots. This is most likely to cause the

(1)

A   price to fall and producer surplus to fall

B   price to rise and producer surplus to rise

C   price to fall and consumer surplus to rise

D   price to rise and consumer surplus to fall

Answer   A

(b) Explanation

(3)

- The producers surplus is the difference between the amount that they will supply at each price and what they actually supply

- It is not A because if there's an increase in supply as D & I showed in the diagram, the supply curve shifts to the right making price fall from Pe to P1.

- It is not D because if supply increases, the price falls.

- It is not C because although the price falls so now they are going to be able to pay less for more quantity making the consumer surplus decrease.

- It is A because our pre what bussinesses whant is to supply more at a higher price but now they supply too more at a lower price.

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Examiner Comments

Incorrect answer offered but diagram shows supply increases for one mark and then the diagram shows the price falling from Pe to P1 for one mark. They offer a definition of producer surplus but this is not helpful to explain the correct answer which links to consumer surplus. For the rejection of D, it clearly identifies in the mark scheme they can explain either the price change or the consumer or producer surplus change. However, this candidate has already been awarded 2 marks for showing the change in supply and price so was awarded no marks to avoid double awarding.

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Examiner Tip

Far too many candidates redraw the diagram. This wastes time and candidates are advised to annotate on to the given diagram like this candidate has.

A significant number of candidates achieved all available marks and often went beyond the
Whilst pleasing that they had such a command of the topic, it comes with a significant
opportunity costs in terms of their ability to finish the paper if they are spending too long on
some questions. Scores 1+3 marks.

2 The diagram shows the market for carrots where the initial equilibrium is at price
   P_e and quantity Q_e.

(a) Good weather conditions lead to an increase in the supply of carrots. This is most
    likely to cause the

(1)

    A price to fall and producer surplus to fall

    B price to rise and producer surplus to rise

    C price to fall and consumer surplus to rise

    D price to rise and consumer surplus to fall

    Answer   [C]
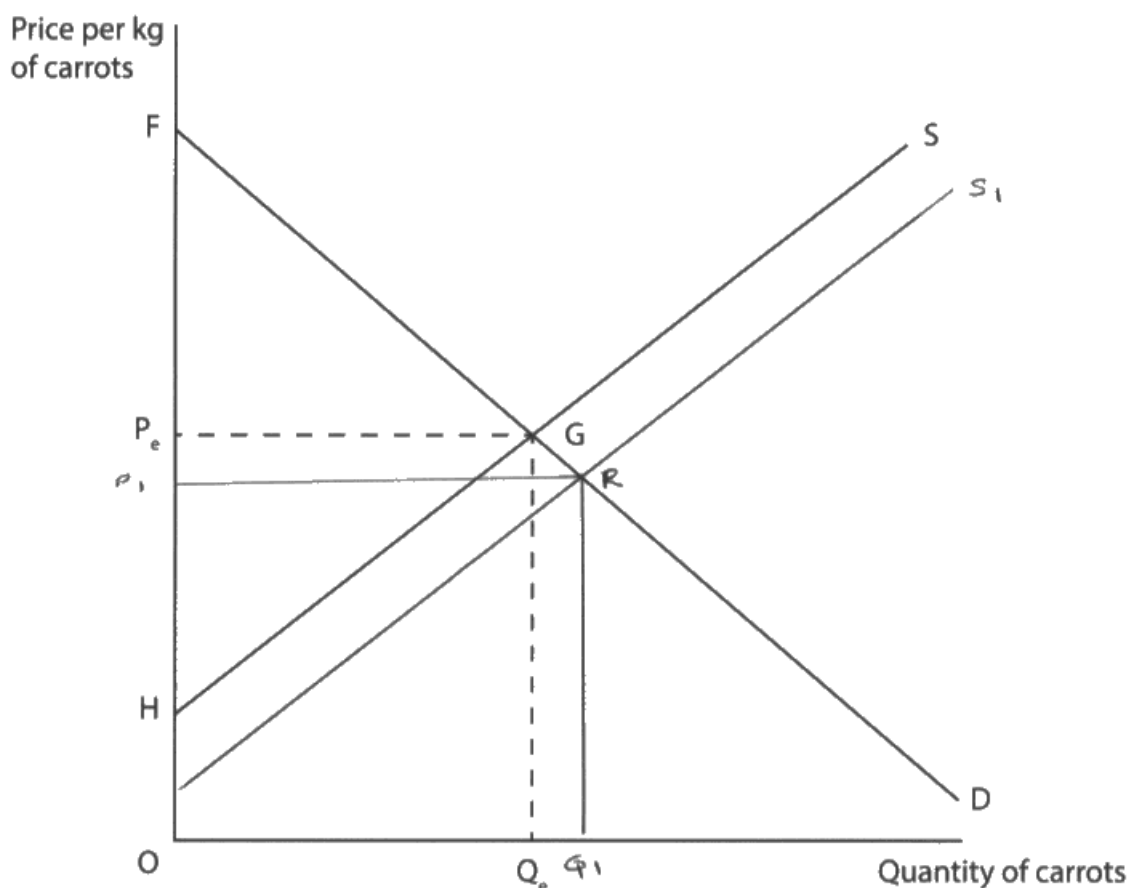
(b) Explanation

(3)

consumer surplus is the difference between what the consumers pay and and what actually want to pay for the good. An increase in the supply of carrots due to favorable weather conditions has lead to increase the supply from S to S1 leading to a fall in price from Pe to P1 this has also lead to increase the consumer surplus from Pe GF to P1 RF from and increase of Pe GR P1

option A is incorrect because when the price falls this would increase the producer surplus as shown in the diagram from Pe GH to ~~P1e H~~. P1 R H

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Examiner Comments

Correct answer is awarded one mark. On the diagram they annotate shift in supply which is awarded one mark. Equilibrium price moved from Pe to P1 on diagram for one mark. Consumer surplus defined for one mark. Shows the original and new consumer surplus for one mark. They also gain a mark for showing the size of the increase in consumer surplus. Rejection not awarded as area for the new producer surplus is wrong.

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Examiner Tip

On the diagram, one way to gain the mark to show change in consumer surplus would be to label the area PeP1GR as change or increase in consumer surplus.

Question 3

The concept of where consumers do not maximise utility has been tested a number of times and performance on such questions has always been below average. On this occasion, there is a slight improvement achieved. More candidates were able to explain why consumers may be habitual. Rejection was commonly used to access marks.

Full marks awarded with rejection successfully offered. 1+3 marks achieved.

3 The Competition and Markets Authority in the UK has reported that bank customers could save £70 by switching their current account to another bank. However, few customers have moved their account to another bank.

(a) This may be explained by customers

(1)

    A maximising utility

    B being good at computation

    C experiencing external costs

    D exhibiting habitual behaviour

Answer   D

(b) Explanation

(3)

- ~~Dis~~ This proves that consumers are not rational, because even though it is cheaper to ~~produc~~ switch ~~to their current account~~ banks, they stay because they ~~have~~ "trust" the one they are with at the moment.

- Not A, ~~is~~ they are not maximising their utility, this would happen if they had switched banks.

- Not B, if they were good at computation they would have realised it is cheaper to switch and therefore they would have switched.

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Examiner Comments

The candidate identifies the correct answer for one mark. They gain a mark for identifying that customers trust their current provider for one mark. They then achieve one mark for their rejection of A as they explain that staying with current provider means they are not maximising utility. For the rejection of B they gain one mark for explaining why it is not correct.

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Examiner Tip

When rejecting an answer remember to explicitly include the letter you are rejecting.

Question 4

The question explored candidates understanding of diminishing marginal utility to look at why people will not keep returning to the buffet breakfast in a hotel. The question saw many candidates struggling to pick up marks. Some could identify the correct answer but struggled to explain the concept of diminishing marginal utility. Many candidates said that as consumption increased then utility falls. This is not precise enough. Candidates need to understand that as consumption rises it is the additional utility that falls with each additional unit consumed but in fact utility rises. Some candidates did achieve this mark by explaining that the marginal utility falls, which is correct. Some of the stronger candidates did talk about the reason people stop returning to the buffet being because they are satiated.

This is one of the better responses to the question. 1+2=3 marks achieved.

(b) Explanation

(3)

Diminishing marginal utility means the extra benefit of consuming decreases as the more they go there.

Consumers might feel less interested as they've already been there two times.

For choice A, it's not public goods so there's no free rider problem as people need to pay for rooms in hotels.

Examiner Comments

Achieved a mark for the correct answer. The diminishing marginal utility is explained by making reference to extra benefit falls is good enough for one mark. The point about consumers being less interested is not good enough for a mark. The rejection of A was awarded as they have clearly identified public goods and people paying for their rooms is not a public good to achieve one mark.

Examiner Tip

When explaining they are less interested it is worth explaining why. A good response here will go on to becoming satiated.

Question 5

Candidates were given two diagrams and told that the global sales increase was driven by the Chinese increase in demand. Many candidates drew the demand shifting left and annotated the rise in price for their first mark. Most then drew demand rising in the labour market and the corresponding rise in wages. Far fewer candidates achieved the mark showing employment levels rising. Many were able to identify this as derived demand and went on to achieve a mark for the definition. Overall, candidates achieved very well on this question.

A good response that achieves all marks in the diagrams. By annotating shifts on demand and changes to equilibria the candidate accesses full marks. Many candidates achieved their marks this way and like this candidate went on to offer an extended explanation, which essentially wasted time as they already had full marks. Awarded 1+3=4 marks.

5 The diagrams show the global market for cars and the labour market for car factory workers.
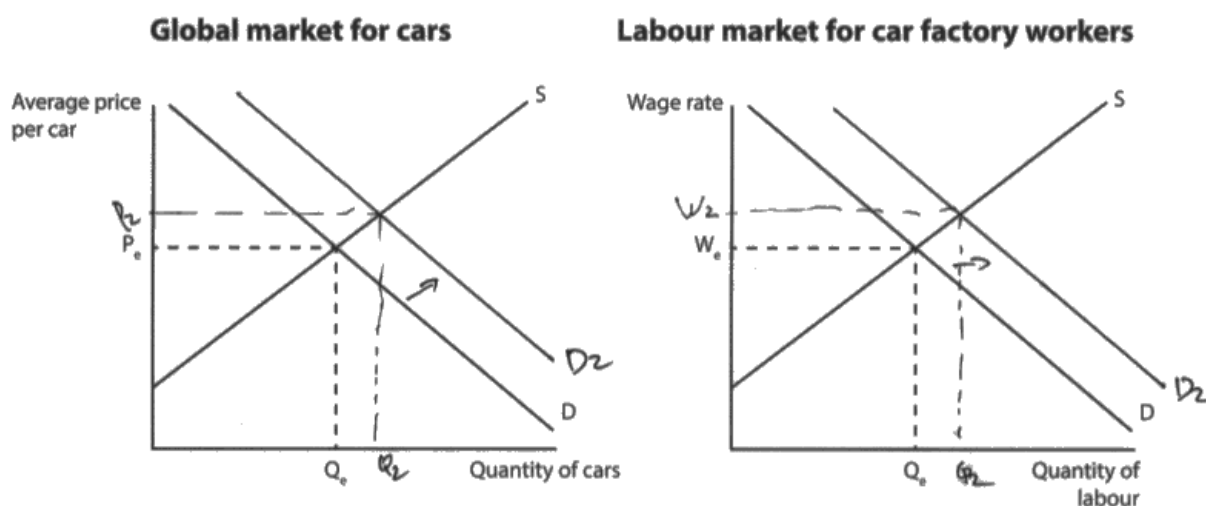
Global car sales increased from 65 million in 2012 to 71 million in 2013. A significant cause was the rise in demand in China, where sales increased from 13 million to 18 million during the same period.

(a) Ceteris paribus, this increase in demand for cars is most likely to cause which one of the following changes?

(1)

	Car prices	Wages of car workers	Employment of car workers
A	Fall	Fall	Fall
B	Fall	Rise	Fall
C	Rise	Fall	Rise
D	Rise	Rise	Rise

Answer D

(b) Explanation

(3)

The increase in demand has shifts the demand curve for the Global market for cars to the right, Price rise from P₁ to P₂.

However, Labor are derived demand for car production. Derived demand is the need of this to the product which is producing. all labor are derived demand in all industries.

When the demand for cars increases, the demand for labor also increases. Therefore wage rate rises from p₁ to W₁ to W₂, employment also rise.

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Examiner Comments

Correct answer offered for one mark. All marks are awarded on diagram with 1 mark for showing demand rising and price rising in global market for cars. One mark for showing demand rising and wages rising in the labour market.
One mark awarded for showing increased employment on diagram. The candidate also receives a mark for identifying derived demand. Full marks achieved.

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Examiner Tip

Many candidates drew a demand line above the original demand line on both diagrams but did not mark on the higher price level or wage level. This was needed to access the marks.

Question 6

The question explored both price elasticities of demand and supply. Most candidates were able to define both of these. A number of candidates failed to get any further marks. Many successfully achieved a mark for rejecting C as this was related to income elasticity. A number of candidates were able to explain that values being below one make it inelastic.

A good response that is able to achieve full marks 1+3=4. Many candidates were able to pick up the two marks for defining the elasticities. This response goes beyond this, with effective rejection of an incorrect key and with explaining why they are both inelastic.

6 The table below shows estimates of the price elasticity of supply and price elasticity of demand for natural gas.

	Natural Gas
Price elasticity of supply	+0.14
Price elasticity of demand	−0.10

(Source: http://www.usaee.org/usaee2013/submissions/Abs/Ponce_Neumann_
Elasticities_gas_supply.pdf, http://www.mackinac.org/1247)

(a) It can be deduced from the data that

(1)

A a 10% increase in the price of natural gas would cause a more than 10% increase in the supply

B the demand for natural gas is more responsive to changes in price than supply ✗

C natural gas is a normal good with income inelastic demand ✗

D the demand and supply of natural gas are both price inelastic

Answer   D

(b) Explanation

(3)

• Price elasticity of supply measures the extent to which the ~~demand~~ supply for a good or service changes in ~~real~~ relation to a change in price.

* Price elasticity of demand measures the extent to which the demand for a good or service changes in response to a change in price.

* Not C, there is no information about ~~event price~~ ~~elasticity of demand and~~ income elasticity of demand.

* Both of these figures are below one, meaning that there is a less than proportional change in supply and demand when there is a change in price. Showing that it is inelastic.

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Examiner Comments

The correct answer was offered. The candidate achieves one mark for defining price elasticity of supply and one mark for price elasticity of demand. The rejection of C was awarded one mark for saying that there is no data related to income elasticity of demand. The candidate also achieves a mark for saying that both values were less than one – making it price inelastic.

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Examiner Tip

It is fine to offer a written definition or to offer the relevant formula for elasticity. Remember that you will not normally be awarded for including both in the same response.
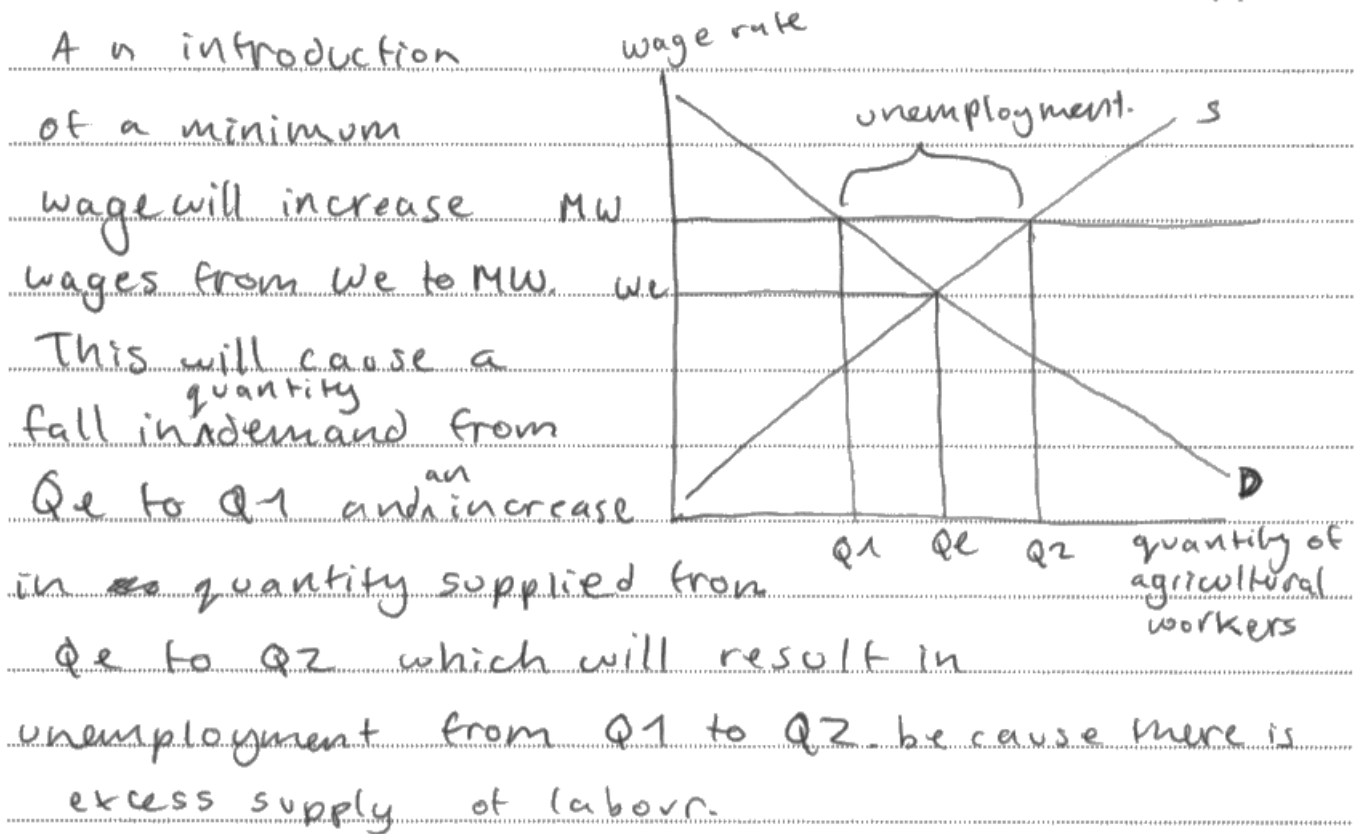
Question 7

It was pleasing that candidates drawing the diagram, drew a diagram that clearly showed the effect of introducing rather than increasing the minimum wage. Most candidates defined a minimum wage accurately. The stronger candidates were often able to annotate the level of unemployment on their diagram. Some explained how demand contracts due to higher costs and supply increases due to higher rewards for working.

This is one of the better responses with an accurate and well labelled diagram as well as a detailed explanation of the effect of the introduction of the minimum wage.

(b) Explanation

(3)

A n introduction
of a minimum
wage will increase   MW
wages from We to MW.   We
This will cause a
                   quantity
fall in demand from
              an
Qe to Q1 and increase
in so quantity supplied from
Qe to Q2 which will result in
unemployment from Q1 to Q2 because there is
excess supply of labour.

wage rate

unemployment.   S

Q1   Qe   Q2   quantity of
                  agricultural
                  workers

D

ResultsPlus
Examiner Comments

Correct answer awarded one mark. One mark is awarded for the diagram and shows the minimum wage higher than the equilibrium wage. The diagram clearly marks on the unemployment for one mark. The quantity demanded falls and quantity supplied rises referred to in written explanation to achieve two more marks.

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Examiner Tip

Diagrams to show introduction of a minimum wage must refer to wages. Many times candidates included prices on the y axis.

Question 8

This question was challenging for many candidates as they did not have a precise knowledge of how such schemes work. Most candidates explained the idea of the permits giving them an allowance to pollute. Many then explained that if they go over this they pay fines or taxes, which is not the case. The notion of those reducing their pollution levels being able to earn profit from selling permits to those that exceed their allocation was less often discussed.

Here is an example where the candidate has a clear understanding of how a tradeable permit scheme works. Achieves 1+3=4 marks.

8 (a) China plans to introduce a Carbon Emissions Trading Scheme in 2017. The objective of this tradable pollution permit scheme is to reduce carbon emissions by

(1)

   A   providing subsidies for firms who manage to reduce their carbon emissions

   B   forcing polluting firms to buy permits from firms that do not need their full allowance

   C   taxing firms that pollute over their allowances

   D   imposing fines on firms that pollute up to their allowances

Answer   B

(b) Explanation

(3)

Tradable pollution permits are a sort of currency that enable firms to pollute to a specific level. Once they pollute more then they must purchase permits from firms that are more eco-friendly and have less emissions

B is correct because this causes firms that pollute to have higher costs of production than other greener firms. (Incentive to pollute less)

A is wrong because subsidising firms is irrelevant here as the permits are used as an incentive to pollute less.

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Examiner Comments

The correct answer was offered to achieve one mark. One mark was awarded for explaining that firms are allowed to pollute to a certain level. The candidate then achieves a mark for explaining that if a firm produces over this they must purchase from eco-friendly firms. They also talk about the incentive to pollute being less but this is the same mark that has just been awarded.
The rejection of A talks about permits being used as an incentive rather than a subsidy achieves the final mark.

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Examiner Tip

If firms go over the permits then they must find a firm with spare permits. Far too many candidates talked about the firms receiving fines or paying taxes which is not the case.
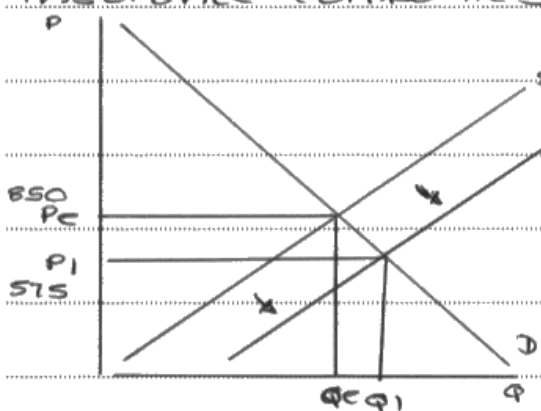
Question 9 (a)

A familiar question looking at a price change and getting candidates to explain why the price had changed and the drawing of an appropriate diagram. Most were able to draw a diagram and shift the supply appropriately. Where candidates missed out, they often already shifted demand so could not achieve the mark for the final equilibrium.

This candidate has achieved full marks. The diagram is accurate to achieve full marks and then with data reference and clearly identified causes of the supply increasing.

(a) With reference to Figure 1 and Extract 1, explain why 'The average price of car insurance fell by a third between Q2 2011 and Q2 2014' (Extract 1, line 1). Use a supply and demand diagram in your answer.

(6)

the average price of car insurance fell by a third between Q2 2011 and Q2 2014 because of the increase in number of the car insurance companies this enables the customers to find a better deal elsewhere and are able to substitute between the insurance companies . According to the diagram when the increase in there is an increase in the insurance company the supply would increase from S to S1 leading to decrease prices from Pe to P1 or £850 to £575.

Another reason for the reduction in car insurance from £850 to £575 is that insurance companies are able to provide complementry policies which lowers the administration cost of the company this leads to decrease prices by a third between Q2 2011 and Q2 2014.

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Examiner Comments

There is an attempt to offer a data reference towards the start of the response but this is just taken from the question so no marks achieved. The candidate does achieve a mark for the increase in the number of insurance companies. They make data reference on the diagram but this is not awarded as the pound sign was omitted. The candidate then makes explicit reference to price change twice for one mark. The diagram achieves three marks. One for the shift to the right of the supply curve. One for the original equilibrium price and quantity and one for the new equilibrium showing lower price and higher quantity. Reference to lower administration costs also achieves a mark.
Achieves 6/6 marks.

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Examiner Tip

If including the original and new price, do remember to include the appropriate currency.

Question9 (b)

Most candidates were able to define both substitutes and complements. The examples of being able to substitute between insurance companies were often rewarded. Unfortunately, many candidates did not pick up the example of complements. Many said breakdown insurance was a complement but without saying to what. When candidates did pick up this mark they explicitly linked breakdown insurance and car insurance.

The candidate achieved full marks – 4/4. They were able to clearly define key terms and give appropriate examples taken from the extract.

(b) With reference to Extract 1, explain the difference between complements and substitutes.

(4)

XED: cross price elasticity.

XED: % Δ in quantity demanded of good A
           % Δ in price good B

XED positive: substitutes
XED negative: complement.

Breakdown and car insurance are complements as they can be jointly consumed. For people who have a car it

makes sense to purchase both. One cannot be used in lieu of the other.

Two different car insurance companies are substitutes when you buy insurance from one you no longer need to purchase insurance from the other

Complements: jointly consumed

Substitutes: one good replaces another.

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Examiner Comments

The formula and definition of cross elasticity of demand were not awarded any marks. Complements identified that the cross elasticity of demand is negative for one mark and substitutes have a positive cross elasticity of demand for another mark. The example given was of breakdown insurance and car insurance being complements for one mark. The car insurance companies offered substitutes achieved another mark. Complement jointly consumed and substitutes one good replaces another good are both rewardable but marks have already been achieved.

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Examiner Tip

If examples are being offered of substitutes and complements it is important that the examples offered are taken from the relevant extract.

Question 9 (c)

Those attempting question 9 tended to perform better on part (c) than on part (e) in terms of the 14 mark questions. Many candidates were able to define indirect taxes and offered a diagram. This was however commonly a specific diagram being drawn rather than the ad valorem tax. Many stronger candidates looked in detail at the impact on each economic agent. Better responses tended to use their diagrams to help illustrate the impacts.

This is an example of a response achieving within the top level for both knowledge, application and analysis and evaluation. Whilst they mistakenly draw a specific tax diagram the development of the analysis is sufficient to access higher marks. Note the wrong diagram is still rewarded but less positively.

(c) With reference to Extract 2, evaluate the likely impact of an increase in indirect tax on car insurance. Refer to insurance companies, car drivers and the UK Government in your answer.

(14)

In November 2015, the U.K Government increased the indirect tax on home and motor insurance from 6% to 9.5%. Indirect tax

is a tax leveled on goods and services, ~~and is a t payment in~~
This increase in indirect tax ~~on co~~ will allow the UK Government
to generate more tax revenue ~~, and~~ which is an extra £1.75
billion a year.

Price

B

P_3
P_1
↑ Pe
P_2
A ~~P4~~

C

D

E

S_2 S_1

S

D

O Q_2 Q_1 Qe   Quantity.
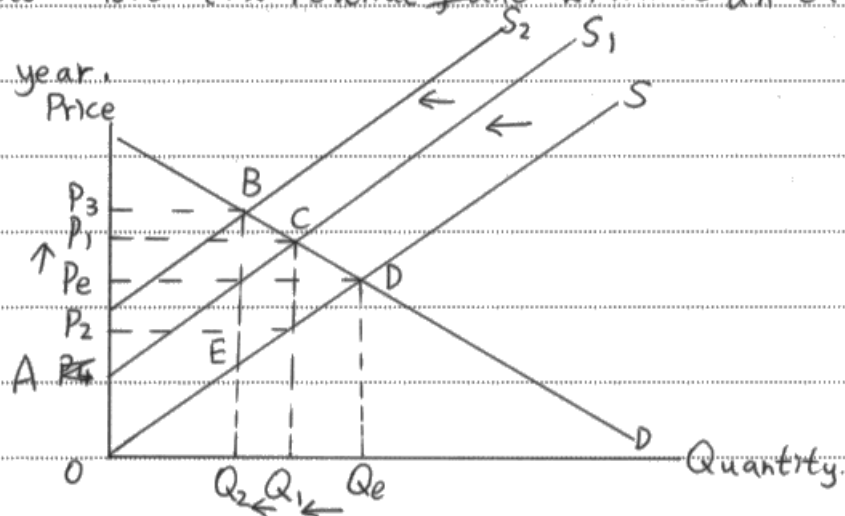
This ~~to~~ increase in indirect tax. ~~will shift the sup~~ will increase
the production costs of insurance companies, so the supply of
car insurance will fall from S_1 to S_2, causing the quantity
to fall from Q_1 to Q_2 and the price of car insurance to
rise from P_1 to P_3. This also reduces the producer surplus
and consumer surplus. The ~~cos~~ government revenue from
this increase in indirect tax is P_3BEA. ~~The~~ This reduction
in supply of car insurance will lead to fall in employment
as the cost of production of ~~car~~ Insurance companies $\overset{are}{~~is~~}$ increased.
So they will lay off ~~workers~~ labour to cut costs. Also, since
there is reduction in supply ~~as~~ which causes the price of car
insurance to increase, this may reduce the revenue and
profit for the insurance companies ~~if~~ ~~people~~ ~~act~~ as this
new higher tax will lead ~~to~~ customers to decide car
insurance is simply too expensive and not buy it.
Futhermore, this ~~to~~ Increase in indirect tax will increase
the burden of car drivers as they will now have to

pay more money because it is illegal to drive a ~~a~~ car in the Uk without car insurance so they ~~could not~~ must purchase the car insurance despite higher price and this reduces consumer surplus.

However, ~~the~~ this increase in indirect tax will not cause much loss of profit to ~~x~~ insurance companies as car insurance is a necessity for car drivers and it is ~~ill~~ illegal to drive a car in the Uk without car insurance.

Moreover, the price of car insurance may not increase much for ~~x~~ car drivers if the ~~car~~ insurance companies decide to absorb the ~~cost~~ increased ~~pr~~ cost of production and ~~d~~ not to ~~cont~~ reduce supply of car insurance. Also, the price ~~may~~ will not rise as much the increase in indirect tax in this case is small, which is from 6% to 9.5%, so the impact on ~~x~~ car drivers and insurance companies is ~~not~~ ~~sty sty~~ small. Also, as there is increased competition between insurance companies which has led to a reduction in their profit margins which for every £100 they receive ~~from customers~~ they had been paying out £99 in claims, ~~x~~ the insurance companies are more likely to absorb increased production cost to prevent losing out of the market as ~~there is are many det~~ customers are more likely to ~~x~~ substitute between insurance companies to find a better deal elsewhere.

Futhermore, there is ~~opportunity cast for~~ the Increase in Indirect tax to the ˅ᵁᵏgovernment ~~as~~, the ˅ᵁᵏgovernment ~~could ha~~ can ~~have~~ spend the tax revenue on other areas such as health or education.

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Examiner Comments

The response achieves in the top level for knowledge, application and analysis. They refer explicitly to the context when talking about the size of the tax change. They define indirect taxation accurately. The diagram is credited but not in the top level as it shows a specific tax rather than an ad valorem tax. The work is well developed looking at the impact on firms and the impact on consumers. This work enables them to achieve in level 3 overall. The evaluation looks at the impact on firms and how it will not impact upon companies and then this looks at the way firms respond. Evaluation also achieves top level. Scores 12 marks overall.

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Examiner Tip

When drawing diagrams for indirect taxes, if it refers to changes in percentages it is important that the diagram is ad valorem.

Question 9 (d)

The question saw most candidates able to define asymmetric information. They often were able to talk about what information drivers do not have in terms of what risks exist when driving uninsured. Most commonly candidates made reference to the high costs of insurance and why people are making rational decisions in not getting insured.

The candidate offers good knowledge and application and effectively evaluates. Where they miss out on level 3 is the development of analysis of the points made. Scores 8 marks overall.

(d) Discuss whether asymmetric information is the main reason why '2.8% of all UK car drivers are estimated to drive without insurance' (Extract 3, line 1).

(10)

Assym Asymmetric information means that one party in a transaction has superior knowledge than the other party. It is stated in Extract 3 that many car drivers are unaware of the risk of driving uninsured, which includes a £300 fine and an increased risk of losing their license. This means that the inferior knowledge of consu drivers causes them to under-consume the insurances. This is likely to be the main cause. The other possible reason is the consumers act acting rationally. Rationality refers to the actions of consumers to maximize utility. As the average insurance policy costs £2000 and the price is rising due to the indirect tax raise discussed in Extract 2, the cost of buying the insurance increases. As a result, consumers reduce their spending in order to maximize utility.
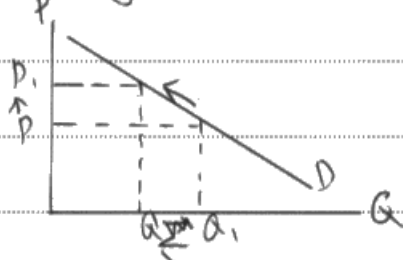
As seen above, the price rise will lead to a contraction of demand.

To evaluate, the underconsumption of insurance is likely to cause a rise in social cost as 130 kills and 26500 injuries arise from uninsured driving every year. It also increases cost for insurance companies, increasing private cost.

Also, the effect of ~~this~~ asymmetric information may diminish over time, as consumers are likely to gain knowledge about the risks through education and will increase consumption back to optimum.

Examiner Comments

The candidate offers a definition of asymmetric information and uses the data to show how the drivers are unaware of the risks of driving insured. This enables them to achieve Level 2 for knowledge, application and analysis. The work is well articulated.
The evaluation explains that drivers are acting rationally in response to high prices and that in the long term asymmetric information may fall.

Examiner Tip

The candidate has made it explicit they are evaluating. Many candidates use the term, however, making it clear you are trying to evaluate makes it more obvious to the examiner that you are offering a different perspective.

Question 9 (e)

The question looked at measures that could be used to reduce the number of uninsured drivers. Some of the better responses looked at a small number of measures and looked at a range of benefits and problems of implementing the measures. They tended to look at subsidies, maximum prices and the provision of information. In each measure, they developed the case for in detail and offered the other side of the argument looking at flaws of the measures. Where candidates struggled, they looked at many measures but only superficially looked at how they would encourage more to get insured.

This candidate has looked at policies in some detail. They have also evaluated each policy. A little more analysis would have been needed to further enhance the response.

(e) With reference to the information provided and your own knowledge, evaluate the impact of measures the Government could take to reduce the number of uninsured drivers.

(14)

The Government could subsidise car insurance for young people, as the cost of insurance for young drivers is £2000. This would reduce the cost of car insurance for young drivers, providing them a reducing the opportunity cost of buying an insurance, hence they would be more inclined to buying an insurance provided that they are aware of the risks involved in being uninsured.

Another measure is to provide more information to drivers on the risks involved in driving uninsured, including loss of driving license and a £300 fine. Alternatively, the government can raise the fine in order to force drivers to buy an insurance. Providing more information will allow drivers that have inferior knowledge or are poor at computation realize that the cost of being uninsured is much greater than being insured in the long term.

Also, another measure is introducing a maximum price to prevent insurance companies from charging high prices. This lowers

the cost of insurance for young drivers, again reducing the proportion of insurance costs out of their total income, encouraging them to buy insurance.

However, these measures depend on external factors.

For subsidies, it depends on the ~~level~~ magnitude of the subsidy, if it is minimal, it would not make a big difference in reducing uninsured drivers. Further, it depends if the government has enough ~~money~~ finance to fund these subsidies. However as a indirect tax increased from 6% to 8.5%, it generates £175 billion annually, which could then be used to fund these subsidies.

Also there are different levels of asymmetric information, while the government may provide information, some people have lesser access to information than others e.g. people without access to technology or the older generation would have lesser access to information as compared to younger generation who are more apt with technology. ~~This~~ This does depend in which the way govt. provides information — e.g. government could provide information via technology as well as radio or posters that require less advanced technology.

Also in the short term asymmetric information would still be high but in the long term it will decrease as people are more aware of the costs/risks

ResultsPlus
Examiner Comments

For knowledge, application and analysis the candidate has considered a subsidy and defined the concept. They then linked to it reducing costs. They linked this to how it reduced opportunity costs and how this makes people more likely to buy. They then looked at providing information on the risks of driving uninsured – looking at how someone could lose their license and the fines that can be imposed. They also talked about the possibility of raising the fine to allow those who are poor at computation to realise the cost of being uninsured is greater than the cost of being insured. They then looked at a maximum price and how this would encourage drivers to buy car insurance. For knowledge, application and analysis the candidate was awarded Level 2 and 6 marks. Evaluation looked at magnitude and the access to technology which makes the access to information easier. Evaluation just achieved within level 3. This achieved 11 marks overall.

ResultsPlus
Examiner Tip

It is better to look at fewer polices in more detail than to look superficially at more policies.

Question 10 (a)

This 6 mark question saw candidates perform less well compared to the corresponding 6 marker in question 9. Some candidates lost out by talking about the impact on the solar panel market. Many candidates did not make any data reference to the price of the electricity generated through solar panels.

The candidate focussed on the market for electricity, making reference to impact on costs, the change in price as well as accurately drawing the diagram. The candidate achieves full marks – 6/6.

(a) 'The price of solar panels is decreasing rapidly' (Extract 1, Line 10). Explain the likely impact of this on the equilibrium price and quantity of electricity. Use a supply and demand diagram in your answer.

(6)

The decrease in solar panel price is resulting. less cost of producing. solar powered energy.

Now, the production cost for solar energy is. €125 per megawatt. which is lower than gas €164 and coal €233, but higher than onshore wind €105.
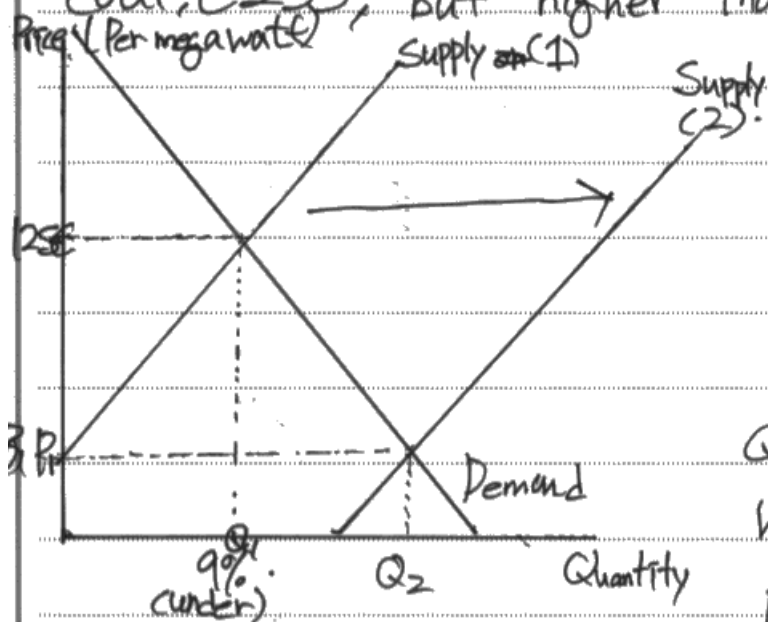
The price will decrease from €125 to P₁ which is significantly low, Quantity of electricity will also increase. From 9% of total generating electricity to Q₂. which is. significantly high

Question 10 (b)

The candidates on average performed better on the 4 mark question here than they did in question 9. They did better in selecting examples from the data and were able to offer accurate definitions of renewable and non-renewable resources.

A response that accesses all the available marks – 4/4.

Renewable energies are energies that can be used all the time and do not run out. This is done without comprimising the needs for future generations. For example, figure 1 ~~shows that~~ shows hydroelectric energy ~~which~~ is a renewable energy

Non-~~reaw~~ renewable energies are energies that once used can not be used again. Figure 1 ~~es~~ shows coal, oil and gas which are examples of non-renewable energies.

This question was the 14 mark question with the highest mean score. Many candidates could define external costs and draw the diagram accurately and give examples from the context. Evaluation was also good with reference to measurement issues and magnitude being commonly used.

Here the effective use of a diagram helps pull the response to the top level for knowledge, application and analysis.

(c) Examine the external costs of using coal and gas to generate electricity. Include a relevant diagram in your answer.

(14)

External cost is cost dumped an third party which is not accounted in producer and consumers.

External cost occurs when there usage of demerit goods occur. In this case demerit goods are electricity generated by coal and gas.
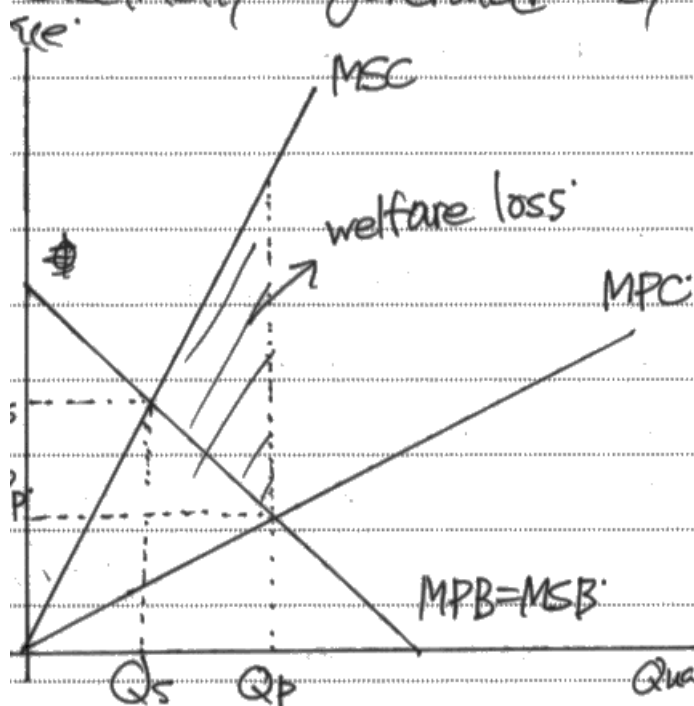
External cost by this case, is pollution. Such as carbon emission and air pollution which is microdust.

These things gives society negative effect. People cannot act freely outside from dust people will be stressful.

Also, by decreased breathing health people will not be able to work.

So, National GDP may fall by theffective labour.

Also, the health budget may rise.

Carbon is a ~~measure~~ major greenhouse gas. Making climate unstable throughout world. And lead to destroy in capital by natural disaster.

External cost occured from goods are market failure, government is ought to reduce it's supply by intervention such as indirect tax. An Reducing amount should be Qp-Qs to match social optimum quantity.

But governments are fueling to coal, gas, nuclear sourced companies. €22.3 billion dollars. Even with higher production cost €233, €164 per killowatt than renewables € 125 (solar) €125 (wind)

Because there is positive external benefit from these kind of generating method.

Renewable energy electricity flow is not constant influenced heavily by weather, climate kind of surrounding enviroment.

This might lead to blackout coincidently causing massive economic loss who uses electricity 24/7. like steel industry and chemicals. Factory stop will be crucial.

Some countries are constructing renewable in oversupply. spain 140% of total demand.

Maybe coal and gas have different amount of external cost.
Coal is more cheap and dirty
Gas is more costly but clean.

The quality of facility will also affect amount of negative externalites

Maybe coal and gas plants are idle when electricity demand is low. They might be operated when there is high demand. ~~to~~ Thats the reason of government subsidy.

Also, ~~suppl~~ subsidy may not stimulate producers operate efficiently. Causing high ~~reli~~ dependance on subsidy.

⭐ **ResultsPlus**
Examiner Comments

For knowledge, application and analysis the candidate was able to achieve within the top Level picking 7/8 marks. They defined external costs accurately. The diagram was drawn accurately with the correct curves, equilibria and welfare loss. The candidate gave examples of external costs in terms of air pollution, carbon emissions but key was the link to the third parties in terms of health problems and then ineffective labour. The arguments relating to climate are weaker. The strength of the diagram and utilising it in analysis elevates the response to level 3. Evaluation looks at how it is more reliable than non-renewable resources and how there are different external costs and the quality of the facility being important. Evaluation achieves within level 2 and 4/6 marks. Total score 11/14 marks.

⚠️ **ResultsPlus**
Examiner Tip

On external costs diagrams, remember to explicitly label the social optimum and market equilibria as well as the welfare loss triangle.

Question 10 (d)

The data used in this question was good to evidence why it might both be elastic or inelastic. Many candidates could accurately define both.

The candidate scores 9 marks, with full marks for evaluation and only 1 mark below maximum for knowledge, application and analysis.

(d) With reference to Extract 2 and 3, to what extent is the price elasticity of supply for electricity elastic or inelastic?

(10)

Price elasticity of supply is the responsiveness of quantity supplied in relation to a change in price.

The price elasticity of electi supply of electricity could be seen to be elastic as Denmark in 2015 was producing 140% of its electricity needs from wind turbines and they were not even working at full capacity. This means that if there was an increase in demand it would take barely any

time or money to increase supply, making it elastic.

This however may not be the case in other countries which do not have any large amount of wind. Because if a country is reliant on wind turbines, and has an increase in demand for electricity but it has been a rather mild season with little wind, then they cannot increase supply in the short run making it supply inelastic.

However the fact that text 2 says that Denmark plans to increase its production of electricity by wind turbines by increasing the number of wind farms, but by saying it takes time for them to be built before they can generate energy, suggests to us that a large scale increase in electricity supply is inelastic in the short run but elastic in the long run.

This, however, is not the case with non-renewable energy sources. This is because as production relies on finite, resources in the long run, once they are exhausted, they cannot be replenished which means supply will be inelastic.

However for renewable energy sources, they relly a lot on climatic conditions, such as, ~~hydroelectric~~ the increase the energy generated by hydroelchic powe in spain was at 16%. due to high levels of rainfall, show that supply is rather irelastic as it depends on weather conditions which are unpredictable.

However on the short run, production of electricity from non renewable is rather price elastic as an increase in burning fossil fuels increases electricity production which is easy to do when you have the source.

ResultsPlus
Examiner Comments

The candidate defines price elasticity of supply accurately. They then make reference to the fact that they had 140% capacity so if demand rises they could respond and increase supply showing elastic. They also offer strong evaluation in terms of if there was little wind then they could not increase supply. They explain that wind turbines need time to be built so, in the short run, supply will be inelastic but when built elastic.

Question 10 (e)

Candidates were able to look at benefits in terms of employment, reducing pollution from non-renewables sources and the ability to sell any surplus. Many candidates considered the impact of building the turbines and the damage they can do to birdlife and visual pollution.

Achieves Level 3 for knowledge, application and analysis and Level 2 for evaluation to achieve 11/14 marks.

(e) Assess the likely benefits of a decision by the Government to encourage the construction of more wind farms in Denmark.

(14)

The government encouraging the construction of more wind farms would lead to more people' being employed as manufacturers would demand more labour, which would push wages up, increasing the standard of living of the people.

Increased wind farms mean that there will be less usage of non-renewable energy sources. resulting in less pollution providing pure air for people to breathe in increasing the health standards of the people.

Better standards of health means that the government cuts expenditure on health allowances etc. The saved money could be spent to clean up the environment.

This also

Further, constructing more wind farms allows sweden to store surplus energy or sell it to other

countries increasing government revenue.

However, construction of more wind farms mean that more land has to be occupied for wind mills. This could lead to the deforestion of trees/destruction of natural habitats.

Wind farms also create alot of noise pollution resulting in people leaving Denmark for other quieter countries.

Moreover, construction of more wind farms doesn't mean that Denmark will always produce good amounts of energy. As if depends on the weather conditions. If there is no wind in the long run, energy production will be less.

Also as renewable energy is expensive people will still continue using non-renewable energy. This can be avoided by the govt imposing maximum prices for renewable energy.

Maximum price
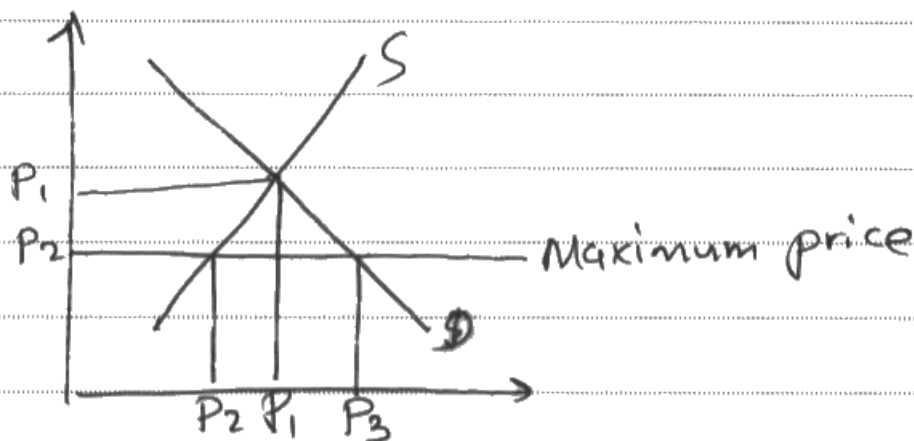
ResultsPlus
Examiner Comments

The candidate refers to greater employment and then how less non-renewable resources will be better for the environment and health. They also look at how it will save government and at how they could store the surplus and sell it to other countries.
The evaluation was strong with reference to environmental damage and noise pollution. The candidate also looked at the dependence on the weather and how expensive it can be.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

Section A: supported multiple choice

• Define accurately the key economic term(s) used in each question.

• When explaining why statements are normative, do not just refer to it being unfair as showing it is normative. It is the connection to showing it is a value judgement that is needed.

• Make sure that candidates know what habitual behaviour is and how it differs from inertia.

• Centres need to do more work on diminishing marginal utility – far too many candidates said it was where utility fell rather than the size of the increase in utility falling.

• Centres also need to make sure candidates know that the tradeable permit scheme does not rely on fines or taxes but on the buying and selling of spare permits.

Section B: data response

• Q9(b) and Q10(b) needed examples from the extract and candidates were well rewarded for doing so.

• Read the question instructions very carefully to make sure your answer remains relevant throughout. On Q9(c) candidates needed to read and take note and refer to insurance companies, car drivers and the UK Government in their answers.

• Focus on developing economic analysis in the high mark base questions. Quite often candidates moved from definitions and a brief explanation of an economic issue straight into evaluation. This was evident on the 14 mark questions. Economic analysis typically involves explaining the sequence of events leading up to a particular outcome.

• Where candidates are asked to refer to a concept in a question, it is important they do not just define it but attempt to use it to analyse and evaluate.

• Where diagrams are requested these should be drawn, as they will be well rewarded – do be careful with the accuracy of these. The external costs diagram was well rewarded when it labelled explicitly the market equilibrium, social optimum and welfare loss. Similarly, when the ad valorem rather than specific tax was drawn, it was well rewarded.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx

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