



Mark Scheme (Results)

January 2017

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





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General Marking Guidance

• All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.

• Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.

• Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.

• There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.

• All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.

• Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.

• When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.

• Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.



Section A: 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 private goods: goods which are rival and excludable (1) Consumption by one person prevent others from consuming – excludable/ people who do not pay can be excluded (1) Consumption by one person diminishes the utility derived for others - rival (1) Example: it is possible to exclude people from using your car by locking it / people can be excluded by erecting a fence around a house (1) 	
	 Rejection marks Do not double award Option A: incorrect as private goods are rival as one person's consumption does affect the benefit derived by others/ public goods are non-rival where the consumption by one does not affect others (1) Option B: incorrect as private goods are excludable as you can prevent others from consuming them/ pubic goods have non-excludability where it is not possible to prevent others from consuming them (1) Option D: incorrect as a public goods suffers from the free rider problem where private firms cannot profit from them as people will consume without paying/ it is not possible to consume private goods without paying as people can be excluded (1)	(4)



Question Number	Answer	Mark
2	Answer D (1 mark)	
ζ	 Explanation (up to 3 marks) Definition of government failure: intervention that results in a net welfare loss/ where government intervention fails to allocate resources efficiently/ misallocation of resources resulting from government intervention (1) Government failure often occurs when the government tries to correct market failure (1) Environmental policies attempt to reduce environmental damage/ pollution/ external costs/ promote environmental protection (1) It costs more to administer the environmental protection than any benefits accrued (1) Excessive costs may reduce output below the social optimum (1) Firms may leave the country in response to the excessive administration costs (1) Rejection marks (do not double award when they identify each as an example of market failure) Option A: Incorrect asymmetric information is where different economic agents have different knowledge about the provision of a good and is a market failure as resources maybe inefficiently allocated by the price mechanism (1) Option B: incorrect as free rider problem means that private sector will not profit from the provision of these goods and leads to market failure as resources maybe inefficiently allocated by the price mechanism (1) Option C: incorrect as overproduction of goods with external costs is a market failure where third party effects are ignored by market mechanism (1)	(4)



Question Number	Mark	
3	 Answer B (1 mark) Definition of a production possibility frontier: the maximum combination of goods that can be produced with all available resources (1) Efficient allocation of resources when there is no waste which occurs on the PPF/ where no resources are unemployed/ any point on the curve is efficient (1) Both points X and Y on diagram B show full employment / efficient allocation of resources (1) The 25.3% reduction in the population will mean the productive potential falls/ less labour resources available for production process (1) So the economy moves from point X on PPF PP to point Y on QQ / inward shift of the PPF when population falls (1) 	
	 Rejection marks Option A: incorrect as this shows productive potential rising which would occur when population rises (1) Option C: Incorrect as point Y is unattainable/economy does not have sufficient resources to each point Y (1) Option D: incorrect as this shows output falling but moving from being efficient to inefficient (1) 	(4)



Question Number	Answer	Mark
4	 Answer A (1 mark) Explanation (up to 3 marks) Definition of subsidy- cash grant paid to encourage supply/ production/ consumption of a good (1) Reducing the subsidy would remove the cash grant (1) This will increase the cost of production (1) Moving the supply curve from S to S₁ (1) Now without a subsidy the government pays nothing (1) 	
	 Rejection marks Option B: Incorrect as P_eZF was the original producer surplus / Incorrect as the new producer surplus was P₁WE (1) Option C: Incorrect as the price will rise from P_e to P₁(1) Option D: the quantity will fall from Q_e to Q₁ (1) 	(4)



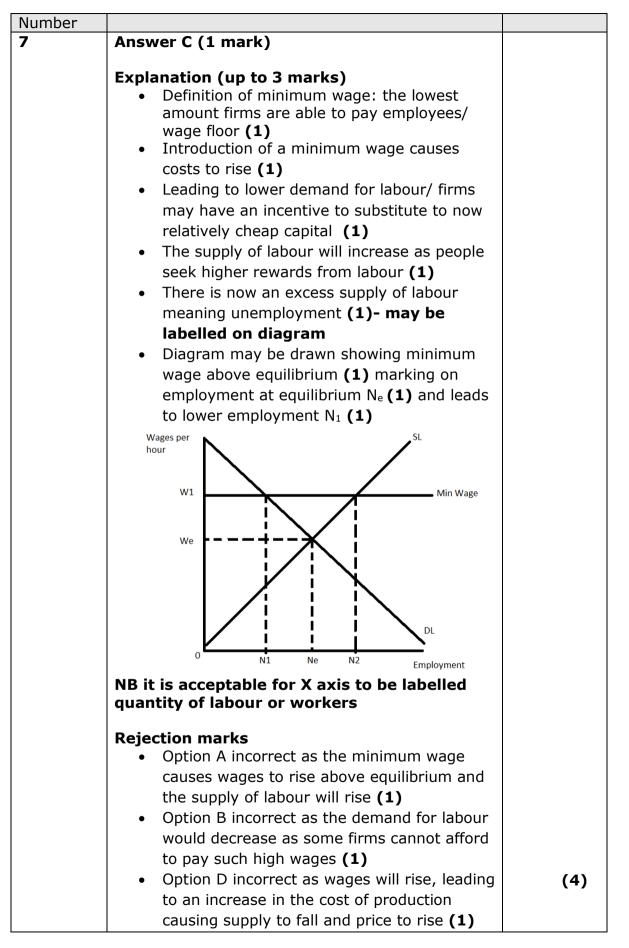
Question Number	Answer	Mark
5	 Answer B (1 mark) Explanation (up to 3 marks) Definition of occupational immobility of labour: where people are unable to move between occupations/ accept definition of mobility of labour (1) There is a mismatch between the skills of unemployed and the skills needed to fill vacancies (1) Training programmes will give them the skills required/ training will improve human capital/workers will be more productive or efficient (1) People move from being unemployed to being able to fill vacancies in other occupations/ improve the employability of workers/ people will be more able to move from one job to another (1) 	
	 Rejection marks Option A: Incorrect as more training leads to more skills and this could encourage firms to extend its demand for labour (1) Option C: Incorrect since the mobility of labour will increase as people will be able to move between jobs (1) Option D: incorrect since the elasticity of supply of labour is likely to increase with the training as people are more able to respond as wages rise/ elasticity of supply of labour more elastic (1) 	(4)



Question Number	Answer	Mark
6	Answer C (1 mark)	
	 Explanation (up to 3 marks) Definition of producer surplus: the difference between the price firms are willing to sell at and what they sell at (1) An advert highlighting benefits of cows' milk will increase demand or Diagram showing increased demand (1) Diagram marking on the old producer surplus (PBC) and new producer surplus(P₁AC) (1+1) or may identify change in producer surplus PP₁AB (1) 	
	Price of cows' milk P1 P P P P P D D D D D D D D D D D D D	
	 Q Q1 Quantity of cows' milk Rejection marks Option A: incorrect as consumers switching to substitutes will see demand for cows' milk falling and producer surplus falling (1) Option B: incorrect as a health scare would reduce demand and causing producer surplus to fall (1) Option D: incorrect as increasing indirect tax 	
	• Option D. incorrect as increasing indirect tax will reduce supply causing producer surplus to fall (1)	(4)

Question Answer Mark			
Question Answer Mark	Question	Answer	Mark







Question Number	Answer	Mark
8	 Answer D (1 mark) Explanation (up to 3 marks) Definition/understanding of buffer stock-where the government intervenes to keep a price between the floor and ceiling price (1) Aim is to stabilise price/ improve farmer incomes/ prevent price fluctuations (1) The new equilibrium price is above the ceiling price (1) With low supply the government needs the price to fall to P₂ (1) The government will receive Q₂Q₃LK for selling from its stocks(1) 	
	 Rejection marks Option A: incorrect as at point M the economy is at equilibrium and there is no excess supply (1) Option B: incorrect as the government buying soya beans would cause the price to rise further above the price ceiling/ the government would only buy soya beans when price falls below the floor when there was a good harvest (1) Option C: incorrect as the quantity demanded between 2015 and 2016 has fallen from Q_e to Q₃/ There is a contraction in demand to point M (1) 	(4)



Section B: Data response

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

NB:	Evaluation	marks	relates	to t	those	awarded	for	AO4
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Question	Answer	Mark
Question Number 9(a)	 Knowledge, application and analysis (up to 6 marks) Data reference to oil price fall- either explicit reference to two prices in Figure 1 that show price fall / award mark for showing change in price / Extract 1 by August 15 prices fell 15% (1) Increased supply due to US oil production doubled/ spare oil to export/ Saudi Arabia, Nigeria and Algeria forced to lower prices/ OPEC unwilling to reduce supply/ Saudi Arabia and United Arab Emirates refused to cut production/ Iraq increased production/ oil production/ oil producing countries are discovering and extracting greater quantities (1) 	Mark
	weak/ developing countries weak/ incomes not growing/ vehicles becoming more efficient so demand for fuel falling (1)	
	 Diagrammatic analysis which shows: Original supply, demand, equilibrium price and quantity (1) a shift to the right of the supply curve (1) a shift to the left of demand (1) new equilibrium price and quantity (1) (Price must fall) 	
	Price of oil per barrel SUS P P1 P1	
	Q Q1 Quantity of oil	(6)



Price must fall but quantity may rise, fall or	
stay the same	



Question Number	Answer	Mark
9(b)	Knowledge, application and analysis (Up to 4 marks):	
	 non-renewable- Once extracted cannot be used again and again/ finite supply/ depletion (1) Example of non-renewable- oil (1) 	
	 renewable- which once used can be used again and again/ infinite supply/ available for future generations (1) Example of renewable- solar/ wind (1) 	
		(4)



Question Number	Answer	Mark
9(c)		(10)
	application and analysis – indicative content Define derived demand- the demand for labour in the oil industry will come from the demand for the final product, oil. Economic effects 100 000 workers lose their jobs- employment falls BP and Chevron 10 000 workers become unemployed Demand for labour falls as demand for oil falls DL to DL1 Wages fall from We to W1 Employment falls Ne to N1 Wages per Wey of the falls of the falls of the falls Wages per of the falls of the falls May pursue careers elsewhere Lack staff with right skills- less supply of labour – higher costs- wages rise Reduced supply of labour SL to SL1 Wages may need to rise and employment falls Ne to N1 (CANDIDATES DO NOT NEED TO LOOK AT THE EFFECT ON LABOUR SUPPLY BUT SHOULD BE REWARDED FOR DOING SO) Wages per hour Wages per hour Wages per Hour Wages per Hour Wages per Hour Wages per Hour Wages per Hour Wages per Hour Wages per Hour Wages per Hour H	
	0 N1 Ne Employment	
Level	Marks Descriptor	



0	0	A completely inaccurate response.	
1	1-2	Shows some awareness of derived demand and the labour market. The diagrams may be missing or showing the impact on the oil market and not labour 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	3-4	Understanding of derived demand and the labour market in the context of the oil market. This will 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 Evaluation -	 Functuation and/or grammar errors are likely to be present which affect the clarity and coherence. 5-6 Clear understanding of derived demand and the labour market in the context of the oil market. This will 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. indicative content Specialised engineers, technicians and rig crews who boast years of involvement- firms may avoid laying off staff- as invested a lot in the resource Elasticity of demand for labour might be inelastic as they do not want to lose their investment in workers Formal training or university degrees- may not be so occupationally mobile away from oil market. Elasticity if supply might be inelastic as wage rises attract few others as need high skills, training etc Magnitude – 100 000 unemployed significant May not be significant depending on number employed Measurement issue measuring the numbers unemployed directly and indirectly Time period: short term significant impact. But long term- demand may recover/ supply fall as finite resource Rising price of oil over recent months, so employment may increase again 		
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	Answer	Mark
Number		
9(d)		(14)
Knowledge,		
	 application and analysis – indicative content Definition of external costs- negative impacts on third parties Carbon emissions are a third party effect as people not driving will be affected by higher levels of carbon emissions Reward reference to data that show falling emissions or improved fuel economy. Any two points from the figures can be selected CO₂ emissions are falling for trucks from 750 g/mi in 1975 to 460g/mi in 2013 CO₂ emissions are falling for cars from 650 g/mi in 1975 to 320g/mi in 2013 (accept 100g/mi) Fuel economy 16.5mpg for trucks in 2004 to 19mpg in 2013 Fuel economy 23mpg for cars in 2004 to 27.5mpg in 2013 less oil will need to be burnt and less pollution caused less need for treatments for respiratory disease saves on health care costs to governments and individuals external costs will be lower and the size of the welfare loss will fall Reward diagram showing MSC above MPC Reward for identifying the size of external costs or welfare loss 	
	Qe/Pe is the free market level of output/price.	



	Candida	tes should show the reducing in external			
	costs ar	nd should be strongly rewarded for doing			
	SO				
	• R	eward diagram showing MSC shifting			
	ir	nwards			
	• R	eward show in lower external costs or			
	S	smaller welfare loss			
	Price	Marginal social costs			
		MSC1			
	P2	Marginal private costs			
	Р3	werare loss			
	P1 – P4				
	Pe				
		Marginal private benefits =			
		Marginal social benefits			
	0	Q1 Q4 Qe Quantity of			
		fuel			
	• R	eward other economic effects			
	• A	s demand falls for fossil fuel the industry			
	n	nay shrink causing employment to fall/			
		nemployment to rise			
Level	Marks				
Level 0	Marks 0	Descriptor			
Level 0 1					
0	0	Descriptor A completely inaccurate response.			
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1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.



Question	Answer		Mark
Number			(14)
9(e)	annlicati	on and analysis - indicative content	(14)
Knowledge,	 (14) application and analysis - indicative content Definition of indirect tax- tax paid to government via third party/ expenditure tax Accept definition of specific tax/ad valorem tax Fuel market Increases costs to producer Reduces supply Increases price Decreased consumers and producer surplus Increased tax revenue Incidence of tax consumer and producer Reduced external costs Staff may be laid off Above may be shown diagrammatically Roads Fund \$AUS 1.1bn for road building Increases supply May reduce congestion/ damage associated with this Boost construction Boost employment- labour intensive 		
Level	Marks	etter infrastructure lowers costs to business Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the advantages or disadvantages of indirect tax	
2	4-6	Understanding of advantages or disadvantage indirect tax with some application to context.	s of
3	7-8	Clear understanding of advantages or disadva indirect tax with detailed explanations of them appropriate application to context.	
Evaluation -		ve content	
	la • G • B • Ir • E sl • R	lagnitude- depends on size of tax increase/ arge investment vives government funds etter roads may help with fuel economy also incidence of tax-depends on PED/PES lasticity of demand likely to be inelastic in hort run/ elastic in long run eliance on roads increased- pollution/ xternal costs	
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
2	5-4	reasoning.
3	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) Data reference to sugar price fall e.g. from July 2014 - 17 US cents (accept 16-20) to July 2015 - 12 US cents (accept 11-13) / May identify 5 US cents change (1) The second price can be any price below the original price. Do not accept 25% as it is in the question Increased supply due to bumper harvest in Brazil/dry weather boosts the harvest/India biggest harvest in 3 years/ Thailand output increased by 6.1%/stockpile of 80million tonnes implies excess supply (1) Reduced demand due to people switching from sugar to sucralose (1) Diagrammatic analysis which shows: Original supply, demand and equilibrium (1) a shift to the right of the supply curve (1) a shift to the left of demand (1) new equilibrium price and quantity (1) (Price must fall) 	(6)



Question Number	Answer	Mark
10(b)	 Knowledge, application and analysis (Up to 4 marks): Definition/formula for XED (1) Identification of substitutes (1) Positive XED (1) Understanding of substitutes - Goods that people switch between as they meet the same need/two goods are substitutes that are in competitive demand (1) Encouraging consumers to switch from sugar to sucralose/price sucralose fallen demand for sugar fallen (1) diagram showing positive relationship between price of sugar and demand for sucralose (1) 	(4)



Question Number	Answer	•	Mark	
10(c)			(10)	
Knowledge	, applica [:]	tion and analysis – indicative content		
Knowledge	 Defication Price El Defimor Whether the second sec	 Price Elastic Define price elastic: where the quantity supplied is more responsive to changes in price Where PES>1 Stockpile (80m tons)- so when price rises can quickly increase supply Price Inelastic Define price inelastic: where the quantity supplied is less responsive to changes in price Where PES<1 Sugar companies have not responded to the falling price by cutting production or switching to other crops- inelastic as not much response Takes 6 months to 2 years to grow sugar cane crop- delay before you can increase supply 		
		gram showing elastic or inelastic supply curve		
Level	Marks	Descriptor		
0	0	A completely inaccurate response.		
1	1-2	Shows some awareness of PES.		
2	3-4	Understanding of PES in Sugar cane market. Li context. Accurate diagram may be drawn	nks to the	
3	5-6	Clear understanding of PES in sugar cane mark links to context. Accurate diagram may be draw explained		
Evaluation		ive content		
	 Short run likely to be more inelastic and long run more elastic as move from fixed factors to variables factors of production Magnitude- depends on how far price changes Other factors- determine supply- weather etc Fluctuations in sugar prices which might make farmers reluctant to changes in price 			

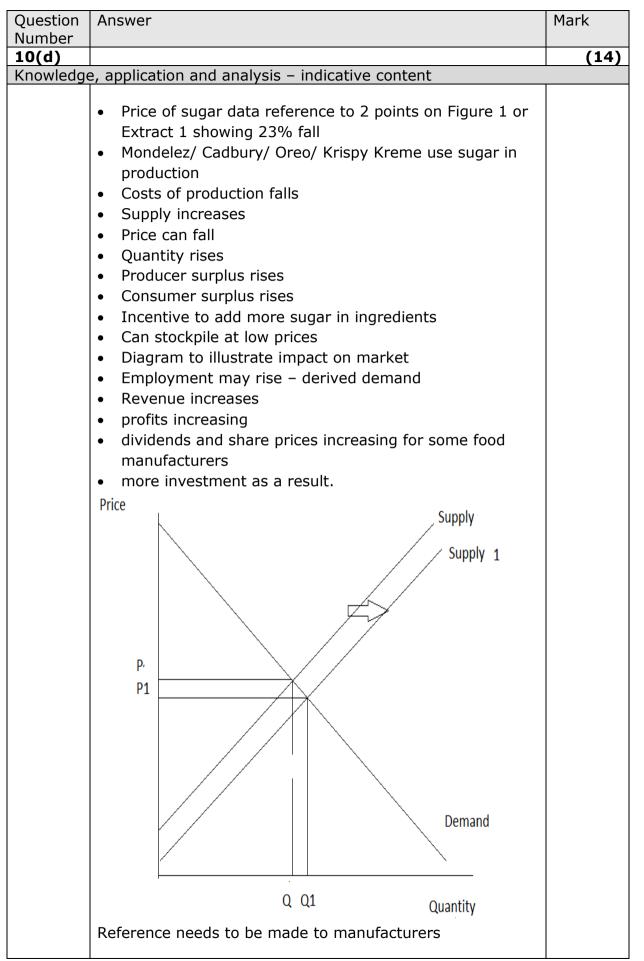


Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.





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Level	Marks	Descriptor		
0	0	A completely inaccurate response.		
1	1-3	Shows some awareness of impact on manufacturers of sugar price fall. Material presented is often irrelevant and lacks organisation or may be confused. Frequent punctuation and/or grammar errors are likely to be present and the		
2	4-6	 writing is generally unclear. Understanding of impact of manufacturers of sugar price fal with some application to context. This will normally be supported by an accurately labelled diagram. Material is presented with some relevance but there are like 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			
Evaluation	– indicat	tive content		
	• Mag	nitude- depends on the size of the price fall – rence to 25% fall in price		
		just absorb lower costs in profit – so no change in		
	• Time	e period- short run- costs falls- long term costs		
	 may rise benefit was offset by cocoa, dairy and packaging costs which rose 			
		portion of total costs accounted for by sugar enue/profit dependant on PED		
		ends on whether sugar tax is imposed		
		ends on the price of the substitute		
Level	Marks	Descriptor		
0	0	No evaluative comments.		
1	1-2	For identifying evaluative comments without explanation or		
2	3-4	for developing one evaluative comment. 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	Answer	Mark		
Number				
10(e)			(14)	
Knowledge, application and analysis – indicative content				



	 Re Eu US Wf int UK in Th Ris Ca dis Co He Ma NB rewar The nega MSC curv 	ternal costs – costs to third parties ward negative externalities rope 2011 35.1kg 2013 37.1kg 2011 31kg 2013 32.5kg 40 recommends less than 10% of energy ake sugars 27 Spain consume 16-17% of intake, children Portugal 25% ird party effects developed sk of obesity/ tooth decay uses additional health problems- heart nease/ breathing difficulties sts to healthcare- to government lps clear stockpile/ supply intains jobs rd students for relevant and accurate diagram tive externalities diagram for sugar where re exceeds MPC curve may be used and a rewarded.		
Level	Marks	Descriptor		
0	0	A completely inaccurate response.		
1	1-3	Shows some awareness of impact of people eating more sugar. 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 impact of people eating more sugar with some application to context. 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 impact of people eating more sugar 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				
	 Magnitude- impact depends on how much more e.g. US only increased 1.5kg between 2011 and 2013 Short run- little impact as takes time to build up to being obese/ tooth decay 			



	Measurement- of the impact of sugar is difficult as				
	fat intake etc important				
	 Hungary/ Norway still only 7-8% of intake 				
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.			

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