



Mark Scheme (RESULTS)

January 2019

Pearson Edexcel IAS
In Economics (WEC11)
Paper 01 Markets in Action

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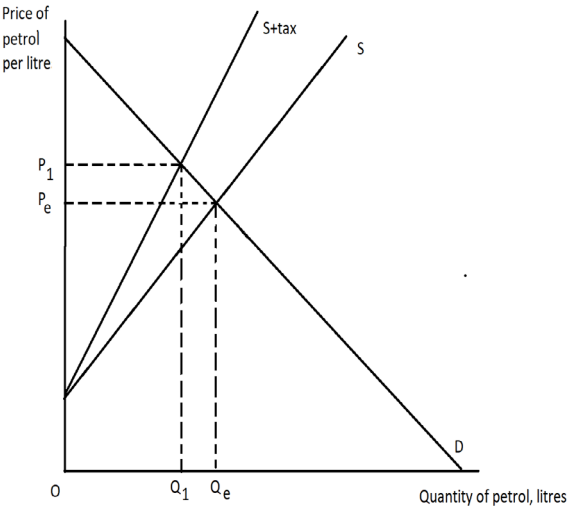
General Marking Guidance

- 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

Question Number	Quantitative skills assessed	Answer	Mark
1	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	A	(1)
2	–	C	(1)
3	–	A	(1)
4	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	B	(1)
5	QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	B	(1)
6	QS8: Make and interpret calculations of elasticity	D	(1)

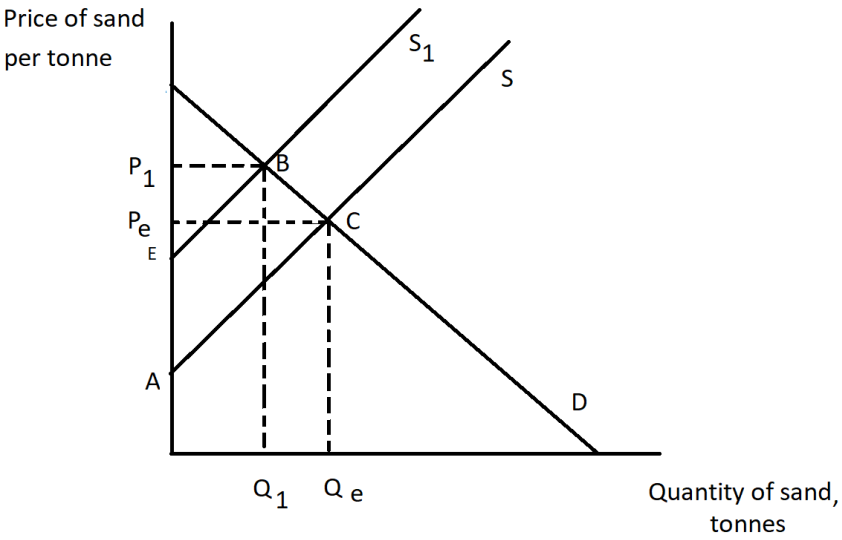
Section B

Question Number	Saudi Arabia introduced its first indirect tax on the sale of goods and services in 2018. The tax is charged at 5% of the price of goods and services. Draw a diagram to illustrate the impact of the introduction of the indirect tax on the equilibrium price and quantity of petrol in Saudi Arabia.	Mark
7	Knowledge 1, Application 3 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge 1 mark for drawing original supply and demand (they do not have to include market equilibrium). OR 1 mark for definition of indirect tax e.g. tax on expenditure OR 1 mark for definition/identification of ad valorem Application Up to 3 marks for the following information included on diagram: 1 mark for drawing a supply curve to the left of original 1 mark for the new supply curve pivoting rather than parallel to old supply curve 1 mark for labelling the new higher price and lower quantity. 	(4)

Question Number	Rimac manufacture electric cars. With the first model, the Concept_One, an individual worker was responsible for building each car from start to finish. Only seven were manufactured. In 2017 €30 million was spent on developing a factory which would use the division of labour to manufacture 200 Concept_Two cars. With reference to the market for car manufacturing, explain one benefit of the 'division of labour'.	Mark
8	Knowledge 2, Application 2 Knowledge Up to 2 marks 1 mark for defining 'the division of labour' e.g. The division of labour is where the production process is broken down into stages and each worker focuses on a specific task (1). Up to 2 marks for explaining one benefit, e.g. • Less training is required (1) as workers will only need to be trained on one task (1). • Productivity will increase (1) as workers do not have to keep changing tools/ as workers become highly skilled at specific tasks (1). • Capital may replace workers (1) saving on labour costs (1). Application Up to 2 marks for applying to the market for car manufacture, e.g.: • Production of cars increases from 7 to 200 cars (1) • Rather than training staff how to put together all components of the car (1) you can spend less time training on a specific task such as fitting the windscreen (1). • Rimac can put in place a production line where some tasks will be completed by robots/capital (1) which can be cheaper to run when compared to paying wages (1).	(4)

Question Number	Lake Poopó in Bolivia used to provide the local community with water to irrigate the quinoa fields. By 2017 there had been a 98% reduction in the size of the lake. The community could no longer use the lake for irrigation. Explain whether Lake Poopó is a free good or an economic good.	Mark
9	Knowledge 1, Application 1, Analysis 2 Knowledge Up to 1 mark for defining 'free good' or 'economic good', e.g.: - Free good is a resource which is so abundant that its availability is not a constraint on economic activity/ a good with no opportunity cost OR Economic good is a good that derives utility/ a good with scarcity and therefore an opportunity cost/ scarcity means people may be willing to pay for it (1). Analysis Up to 2 marks for explaining why the lake might be a free good or economic good e.g.: - The lake provides water to irrigate quinoa (1) with abundant supply of water thus likely to be a free good (1). - The lake reducing in size means less water for irrigation is available (1) this scarcity suggests it is an economic good (1). Application Up to 1 mark for applying this to Lake Poopó, e.g.: - The lake is now 2% of its former size/there has been a 98% reduction in the size/lake used it irrigate quinoa fields (1).	(4)

Question Number	The table shows the quantity of bottled water supplied and the quantity of bottled water demanded at different prices. An advertising campaign results in an increase in demand of 100 bottles of water at each price. Using the data in the table, calculate the equilibrium price for bottled water after the advertising campaign. Show your workings. You may wish to use the last column in your calculation.	Mark																								
10	Knowledge 1, Application 3 Quantitative skills assessed: QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge 1 mark for defining what equilibrium is Equilibrium is found where supply and demand intersect/ balance (1). Quantity demanded and supplied are the same (1) (may be shown on a diagram) Application Up to 2 marks for completing the final column. One for ¥12 and one for any other calculation: <table><tr><th>Price of bottled water (yuan)</th><th>Original quantity demanded</th><th>Original quantity supplied</th><th>New quantity demanded</th></tr><tr><td>¥10</td><td>700</td><td>200</td><td>800</td></tr><tr><td>¥11</td><td>600</td><td>300</td><td>700</td></tr><tr><td>¥12</td><td>500</td><td>400</td><td>600</td></tr><tr><td>¥13</td><td>400</td><td>500</td><td>500</td></tr><tr><td>¥14</td><td>300</td><td>600</td><td>400</td></tr></table> One mark for explaining where equilibrium occurs Equilibrium occurs at a price of ¥13 (1) +1 K mark for implied understanding of equilibrium NB: if correct answer (¥13) is given, award full marks regardless of working. If currency (¥) is missing but 13 is given award 3.	Price of bottled water (yuan)	Original quantity demanded	Original quantity supplied	New quantity demanded	¥10	700	200	800	¥11	600	300	700	¥12	500	400	600	¥13	400	500	500	¥14	300	600	400	
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¥12	500	400	600																							
¥13	400	500	500																							
¥14	300	600	400																							

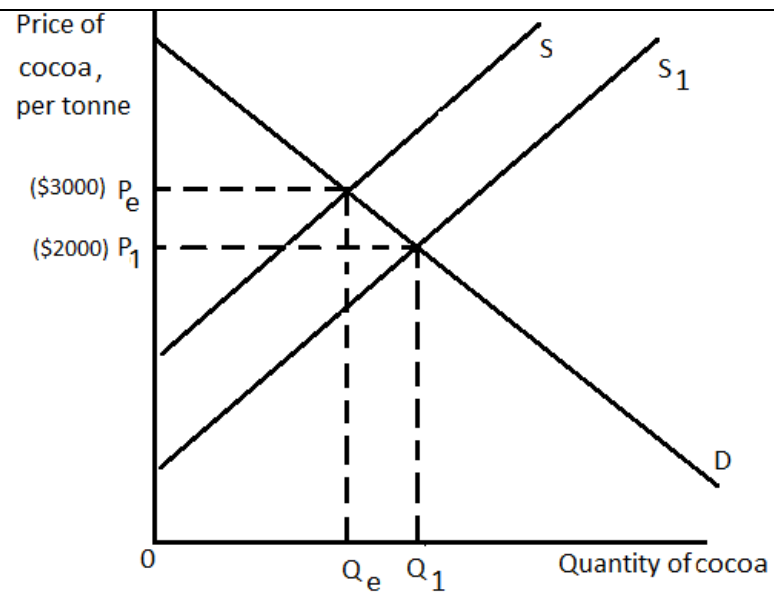
Question Number	In Ho Chi Minh City, Vietnam, the price of sand increased from VND510 000 to VND695 000 per cubic metre between April and May 2017. This was caused by reduced supply from Vietnamese mining companies. Explain the likely impact of this change on producer surplus in the market for sand. Illustrate your answer with a diagram.	Mark
11	Knowledge 1, Application 1, Analysis 2 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms Knowledge 1 mark for defining producer surplus • Producer surplus the difference between the price of a good and the price willing to sell for / the gap between the equilibrium price and supply curve/profit generated by the firm (1) Application 1 mark for the following diagram, showing supply falling:  Analysis 1 mark for original producer surplus: • ACP_e (1). 1 mark for new producer surplus: • EBP₁ (1). Award only 1 mark if candidate refers to a reduction in producer surplus.	(4)

Section C

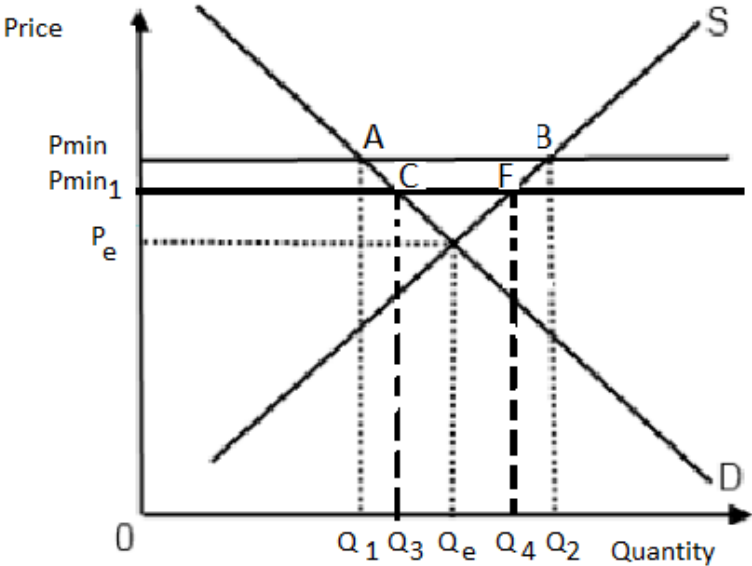
Question Number	Define the term 'substitutes' (Extract A, line 12).	Mark
12 (a)	Knowledge 2 Up to 2 marks for defining a 'substitute', e.g.: • A good that meets the same need as another product (1) so consumers can switch demand from one to the other (1). • A good with a positive cross elasticity of demand (1) such as tea and coffee (1). Other relevant examples are accepted. • Where the price of one good increases and the quantity demanded for another good increases/ where the price of one good decreases and the quantity demanded of another good decreases (1).	(2)

Question Number	With reference to Extract A, explain one factor that is likely to influence the price elasticity of supply for cocoa beans.	Mark
12 (b)	Knowledge 2 Application 2 Knowledge Up to 2 marks for relevant definitions - The responsiveness of quantity supplied to a change in the price (1). OR - Formula for PES: $\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}} \quad \mathbf{(1)}$ - Elastic supply is where elasticity is greater than 1/ where a change in price will see a greater percentage change in quantity supplied (1). - Inelastic supply is where elasticity is between 0 and 1/ where a change in price will see a smaller percentage change in quantity supplied (1). Application Up to 2 marks for application to cocoa production, e.g.: - Stocks being 27.3% higher than in 2016 (1) so cocoa can be supplied from these stocks if the price rises so elastic (1). - It takes four to five years for cocoa trees to reach maturity (1) so it will take a long time to increase supply of cocoa so inelastic (1). - Cocoa can only be grown near the equator (1) so it is difficult to increase supply making it inelastic (1).	(4)

Question Number	With reference to Figure 1 and Extract A, analyse one reason why the price of cocoa beans 'fell below \$2 000 per tonne' (Extract A, line 8) in April 2017. Illustrate your answer with a supply and demand diagram.	Mark
12 (c)	Knowledge 2, Application 2, Analysis 2 Quantitative skills assessed: QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge Up to 2 marks for the diagram showing: • Original supply, demand and equilibrium (1). • Correct shift in supply (1). Analysis 1 marks for development of how the reason leads to lower prices, e.g.: • Cote d'Ivoire production rising meaning that at any given price supply is higher (1). • The trees maturing means the growers are able to supply more cocoa at a lower cost (1). • Good harvests lead to excess supply at original price, so causing downward pressure on price (1). 1 mark for using diagram to show impact of the change in supply on equilibrium price: • New equilibrium showing lower price (1) Application Up to 2 marks: 1 mark for interpreting data from Figure 1: • showing the price above \$2 000 before April 2017 e.g. August 2016 \$3 000 (1) Or may be shown in diagram Up to 2 marks for using data from Extract A: • Cote d'Ivoire production rose from 1.45m tonnes to 1.93m tonnes /a good harvest/ stocks 27.3% higher/ new trees maturing (1+1).	(6)



Question Number	With reference to Extract B, examine the external costs associated with the production of cocoa beans.	Mark
12(d)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 Knowledge Up to 2 marks for knowledge of external costs, e.g.: • Definition of external costs: negative impacts on third parties (1). • Where MSC are above MPC- this may be shown diagrammatically (1). Application & Analysis Up to 2 marks for application to external costs in the extract and up to 2 marks for linked explanation showing the external costs of cocoa production, e.g.: • Rainforest being lost (1Ap) is likely to be chopped down, this means less trees are available to turn carbon dioxide in to oxygen causing health issues (1An). • To increase production some farmers start to use fertiliser (1Ap) which can pollute rivers which could have a negative impact on fishing industry as fish are damaged (1An). • The reduction in rainforest in Indonesia from 30% to 15% (1Ap) means a loss of biodiversity which means species may be lost and possible future cures and medicines lost (1An). Evaluation Up to 2 marks for evaluative comments, e.g.: • Whilst cocoa farmers benefit from production other producers lose out such as fishing industry (1+1). • External costs may be balanced with private benefits of production/ profit is generated for cocoa farmers (1+1). • External cost may be balanced with external benefits e.g. resulting from increased rural incomes/employment leading to increased expenditure (1+1). • Magnitude: it depends on production as to the size of external costs (1+1). • Training on how to produce in an environmentally friendly way can help reduce the size of external costs (1+1). • Measurement of the size of any external costs is difficult to determine (1+1). • In the long-term, having more Rainforest Alliance producers should help reduce these external costs (1+1).	(8)

Question Number	With reference to Extract C, discuss the likely effects of the reduction in the minimum (guaranteed) price for cocoa. Illustrate your answer with an appropriate diagram.
12(e)	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Quantitative skills assessed QS4: Construct and interpret a range of standard graphical forms QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. Knowledge, Application and Analysis (8 marks) – indicative content • Definition of 'minimum guaranteed price' – the price below which firms cannot charge. • The Cote d'Ivoire Government sets a minimum (guaranteed) price for cocoa. • They introduced the minimum price to protect farmers from very low prices/ to support the income of farmers. • Diagram of showing a reduction of the minimum guaranteed price.  • Originally the minimum price was P_{min} and the quantity demanded was Q_1 and the supplied Q_2- this leads to excess supply $Q_2 - Q_1$ • With the falling global cocoa prices the minimum price has been reduced by 36% in 2017.

	• New minimum price is P_{min1} and the quantity demanded was Q_3 and the supplied Q_4- this leads to excess supply Q_4-Q_3 • Demand has extended/ supply has contracted. • The excess supply has fallen. • To guarantee means the Government spent ABQ_2Q_1 originally and CFQ_4Q_3 after the reduction in the minimum price. • The government will spend less/ farmers will receive less support. • Government will need to spend less on administration and storage of the excess supply. • Impact on consumer surplus and producer surplus. N.B. Candidates may give positive effects as KAA and negative effects as evaluation or vice versa.	
Level	Mark	Descriptor
	0	No rewardable material
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

	Evaluation (6 marks) – indicative content • Magnitude of change in minimum price is large at 36% so likely to have a large impact. • Measurement – it is hard to measure what the ideal minimum price should be to know whether lowering it is appropriate. • Farmers may earn less income and lead some to close. • Some farmers are still selling cocoa at prices below the minimum price which may mean the minimum price breaks down. • The price of cocoa has fallen so the gap between the price and minimum price may not have changed significantly. • Minimum price may be non-binding/the equilibrium price may be above the minimum price. • Significance of elasticity of demand and supply.	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Section D

Question Number	In 2016 it was reported that 50% of gas and electricity consumers in the UK have never switched energy suppliers. It is claimed that those consumers who did switch suppliers saved up to £200 each per year. Evaluate the reasons why many consumers do not switch energy suppliers.
13	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, application and analysis (12 marks) – indicative content • Rational consumers – will maximise their utility. • Irrational consumers – fail to maximise utility. • They will maximise their utility by switching gas and electricity suppliers as they would save £200- they could use this money to purchase other goods and services to increase their utility- customers are not acting rationally. • The influence of other people’s behaviour (herding) may mean people do not switch as their friends may also avoid switching/ their friends and family may use a supplier so they continue to do so too. • Habitual behaviour- customers will have used their gas and electricity supplier and will continue to use them as they are used to doing so/ they become loyal to their gas and electricity supplier. • Inertia- customers may not have the energy to go through the process of searching for and transferring to another supplier. • Poor computational skills may exist where they cannot calculate the £200 saving from switching. • Customers may feel valued by their current supplier so they continue to remain with them. • Other benefits may exist from remaining with a provider such as loyalty schemes. • Asymmetric information/ information gaps may exist where customers do not have enough information to calculate possible benefits. • Customers may trust a provider more and receive better customer service and be willing to pay the extra to receive their level of service. • Suppliers of gas and electricity that keep more customers may advertise or brand more. • For some customers on higher income/ wealthier the proportion of their income devoted to gas and electricity bills is relatively low so the likely savings are relatively insignificant. • When switching, the process may not go smoothly so people do not feel confident about switching.

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
Evaluation (8 marks) – indicative content • Magnitude – depends on the proportion of total gas and electricity bills that the £200 saving makes up. • Time frame – in the short-term people may not react to the lower prices elsewhere but over time they may be able to react. • People may have signed up to contracts which mean they have to wait before they can benefit from the savings. • £200 is an average and for many they may save much less. • Some customers may not be offered the better deals. • Governments have attempted to make it easier to switch with less difficulty so more may switch. • Maximum price controls may reduce the need or incentive to switch. • Websites are available that make it easier to switch/ provide information on the savings you can make which should encourage more to switch. • Businesses now have make it easier to compare the different		

		providers pricing making bills less complex. • 50% have never switched but the other 50% have so this is not an issue for all customers.
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	In 2017 floods in Bangladesh resulted in 8 million people having to move from their homes. 100 000 houses were destroyed and many crops were lost. The Institute of Water and Flood Management claim that there had been an under-investment in flood defences. Evaluate reasons for this under-investment in flood defences. Make reference to public goods in your answer.
14	Indicative content guidance Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. Knowledge, application and analysis (12 marks) – indicative content • Public goods defined- non-rival and non-excludable. • Non-rival: one person's consumption does not negatively impact on another consumption. • Non-excludable: one person's consumption does not prevent another from consuming. • Flood defence is a public good as ◦ If flood defence is in place then protecting one house does not prevent the protection of another house ◦ If flood defence is protecting one house it does not reduce the protection offered to the next house • Free riders: if one person puts in place flood defences others will benefit. • This means private individuals are unlikely to contribute to flood defences, as they know they would benefit anyway if they do not contribute/ or that others would benefit if they did. • This leads to an under-provision and under-investment in the public good of flood defences. • This is an example of market failure as there is an inefficient allocation of resources. • The cost of flood defences may exceed the costs of damage from flooding. • There may be imperfect market information- where people do not know the benefits of flood defence/ costs of not putting in place flood defences. • May be a lack of Government funds to afford flood defences/ May be difficult to effectively defend against flooding. • Bangladesh is a low-income country and finance for flood defences is limited. • May lack technology/ engineers to put in place flood defences

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.
	Evaluation (8 marks) – indicative content • The cost of flood defences may be less than the costs of damage from flooding as 8 million moved from their homes, crops destroyed and 100 000 homes lost. • It is not necessarily imperfect information but nature is unpredictable and it is hard to predict amount of rainfall or ice melting in mountains. • Measurement problem: it is hard to estimate the amount of flood defence that is needed. • Opportunity costs if resources are used for flood defence than funds are not available for education or health care. • Provision of information: Government could correct any information failure.	

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

