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Pearson Edexcel

Mark Scheme (RESULTS)

January 2019

Pearson Edexcel IAS
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.

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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 B (1 mark)** **Explanation (up to 3 marks)** • Definition of indirect tax – e.g. expenditure tax/tax on goods and services/tax paid via third parties **(1)** • Identification of specific tax**/**Definition of specific tax- per unit tax **(1)** • The tax per unit is XY or UV or P_0P_1**(1)** • Tax revenue is found by multiplying 0Q1xP0P1 or $Q_1xP_0P_1$**(1)** • Producer incidence/ burden of tax is PP_0VW **(1)** • Consumer incidence/ burden of tax is PP_1UW **(1)** N.B. Producer incidence or consumer incidence may be annotated on diagram. **Rejection marks** **Do not double award** • Option A: incorrect as this is the area of consumer surplus that is lost **(1)** • Option C: incorrect as PP_1UW is the consumer incidence **(1)** • Option C: incorrect as P_0PWV is the producer incidence **(1)**	**(4)**

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Question Number	Answer	Mark
2	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of inertia- where consumers do not have the motivation to switch/choose to do nothing or remain unchanged/cannot be bothered/people are too lazy **(1)** • Rational behaviour is where consumers maximise their utility **OR** Irrational behaviour is where consumers do not maximise their utility **(1)** • Rational consumers would switch to achieve a higher return/rate of interest **OR** Irrational consumers would not switch to achieve a higher interest rate/remain with their current bank and earn low interest **(1)** • To switch, customers would have to find the best deal/ the process of switching is time consuming/ spend time completing applications/organise transfer of funds which they will not like **(1)** **Rejection marks** **Do not double award** • Option B: incorrect because if consumers were good at computation they would calculate how much better off they could be and switch **(1)** • Option C: incorrect as if people were undervalued they would more likely switch to suppliers that would value them more **(1)** • Option D: incorrect as occupational immobility is to do with workers moving between different employment sectors **(1)**	**(4)**

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Question Number	Mark	
3	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of public goods- goods that are non-rival and non-excludable **(1)** • As the goods are non-excludable people will free ride the products/ the free rider problem exists as firms cannot exclude customers **(1)** • Private sector firms will find it difficult to charge customers **(1)** so it is difficult to generate a profit so they will under-provide **(1)** • Examples of public goods include- street lighting, flood defences, lighthouses. **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as non-provision/under-provision of public goods is a market failure **(1)** • Option C: incorrect as public goods are non-excludable as when one person consumes you cannot prevent another from doing so. **(1)** • Option D: incorrect as public goods are non-rival as one person's consumption does not affect the consumption by another **(1)**	**(4)**

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<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4</td><td>
Answer C (1 mark)

Explanation (up to 3 marks)
• Definition of diminishing marginal utility- where consumption of additional units the marginal utility falls/ as consumption increases the extra utility decreases
OR
• Definition of marginal utility – the extra utility gained from consuming an additional unit of a good (1)

<table>
<tr><th>Bottles of water</th><th>Total Utility</th><th>Marginal utility</th></tr>
<tr><td>1</td><td>10</td><td>10</td></tr>
<tr><td>2</td><td>22</td><td>12</td></tr>
<tr><td>3</td><td>30</td><td>8</td></tr>
<tr><td>4</td><td>36</td><td>6</td></tr>
<tr><td>5</td><td>40</td><td>4</td></tr>
</table>

• for calculating at least one marginal utility for units consumed (1)
• for calculating the marginal utility to show diminishing marginal utility (1)
• for explaining that the point where MU starts to fall from 12 to 8 is diminishing marginal utility/utility falls by 4 units (1)

Rejection marks
Do not double award
• Option A: incorrect as marginal utility is 10 as utility is changing from zero (1)
• Option B: incorrect as utility increases at a faster rate moving from 10 to 12 (1)
• Option D: incorrect as utility is diminishing but started diminishing earlier (1)
</td><td>(4)</td></tr>
</table>

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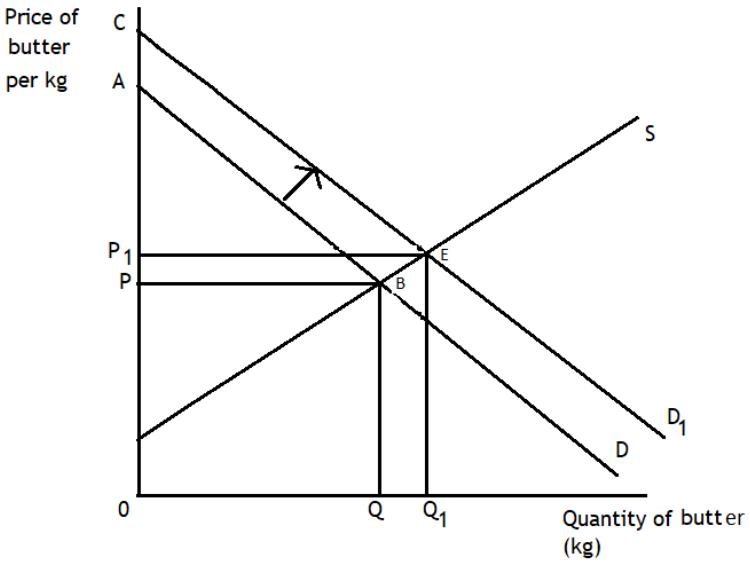
Question Number	Answer	Mark
5	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of consumer surplus- the difference between the price consumers pay and the price they are willing to pay/the area underneath the demand curve and above the equilibrium price **(1)** • If global consumption increases demand for butter increases **OR** • Draws demand curve on diagram **(1)** • Consumer surplus increases from ABP to CEP_1 **(1)** May be annotated on diagram.  **Rejection marks** **Do not double award** • Option A: incorrect as the removal of a subsidy would reduce supply and decrease consumer surplus **(1)** • Option B: incorrect as rising costs of milk would reduce supply and decrease consumer surplus **(1)** • Option D: incorrect as if consumers switched to margarine then demand for butter would fall and consumer surplus would decrease **(1)**	**(4)**

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Question Number	Answer	Mark
6	**Answer A (1 mark)** **Explanation (up to 3 marks)** • Definition of asymmetric information- where one economic agent has more information than another **OR** • Definition of imperfect information – where economic agents do not have full information **(1)** • If consumers know the medical costs they would insure **(1)** • It is likely that travellers are unaware of these medical costs / they ignore these risks **(1)** • This leads to an under-consumption of insurance **(1)** and is market failure as it an inefficient allocation of resources **(1)** **Rejection marks** **Do not double award** • Option B: incorrect as opportunity costs do exist as the money spent on travel insurance could be spent on other goods **(1)** • Option C: incorrect as reducing taxes would lead to higher quantity consumed and see more buying travel insurance **(1)** • Option D: incorrect as geographical immobility relates to people moving location for employment **(1)**	**(4)**

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Question Number	Answer	Mark
7	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of government failure- where government intervention leads to a net welfare loss **(1)** • Environmental policies aim to reduce external costs from chemical production **(1)** • Due to the costs associated with disposing of waste an unintended consequence is that firms would dump chemicals **(1)** • The dumping causes a significant external cost as those nearby the dumped chemicals can be put at risk of health problems **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as positive externalities are where third parties are positively affected but the dumping does not lead to this **(1)** • Option B: incorrect as the free rider problem related to public goods and these chemicals are private goods **(1)** • Option C: incorrect as it is likely to cause a net welfare loss **(1)**	**(4)**

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Question Number	Answer	Mark
8	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of buffer stock scheme- where the government buys and sells stock to maintain price between a floor and ceiling price **(1)** • In 2018 there is a smaller harvest / poor harvest/ the price rises above P_2/ the price ceiling **(1)** • So to lower the price back to the ceiling the government will sell from its stockpile **(1)** • KL must be released to prevent price rising above the ceiling/ Q_3Q_2 is released **(1)** • The equilibrium shifts to L after the Government sells from the stockpile **(1)** **Rejection marks** **Do not double award** • Option A: incorrect as the harvest is poor and the price rises above the ceiling **(1)** • Option B: incorrect as if the government bought rice then the price would rise further above the ceiling **(1)** • Option D: incorrect as there is no reason to adjust the minimum (floor) price **(1)**	**(4)**

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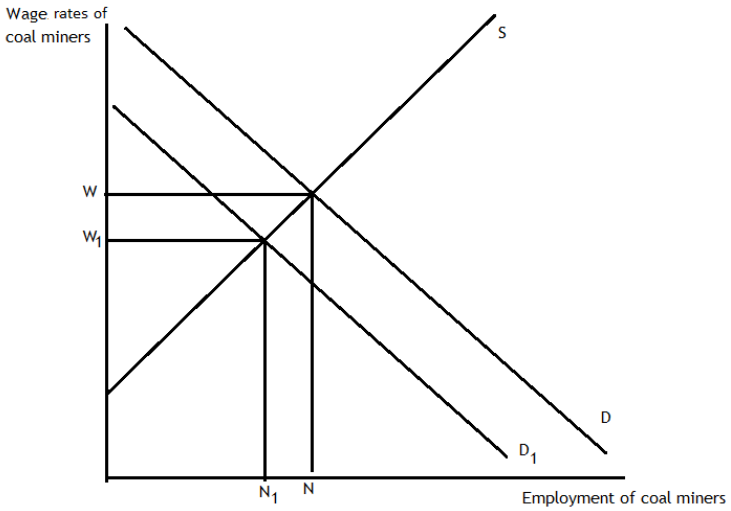
Section B: Data response

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

NB: Evaluation marks relates to those awarded for AO4

Question Number	Answer	Mark
9(a)	**Knowledge, application and analysis (up to 6 marks)** • Demand for labour in coal mining derived from the demand for coal **(1)** • Decline in demand caused by economic growth slowing/ China moved from manufacturing-based to service based economy **(1)** • Original equilibrium **(1)** • Shift in demand for labour **(1)** • New equilibrium **(1)** • Wage rates fall and employment falls **(1)** • Employment falls from 488 000 in 2008 to 359 000 in 2015 **(1)**  	**(6)**

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Question Number	Answer	Mark
9(b)	**Knowledge, application (Up to 4 marks):** **Knowledge (2 marks):** • Define occupational immobility of labour- where people are unable or unwilling to move between occupations **(1)** • Define geographical immobility of labour- where people are unable or unwilling to move between locations for employment **(1)** **Application (2 marks):** • Occupational immobility- miners lack transferable skills or resources to retrain **(1)** • Geographical immobility- 7.4 million unemployed in the USA. At the same time 27.5% of unfilled job vacancies/ people are unwilling to move due to family and friend ties **(1)**	**(4)**

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Question Number	Answer	Mark
9(c)		**(10)**
Knowledge, application and analysis – indicative content		
	• Define external costs – negative impacts on third parties • Before the slowdown coal mining had caused significant pollution - this impacts third parties in terms of individuals and businesses within area. With lower output of coal pollution will fall. • This had impacts on the health of people living in areas with high levels of pollution- this has negative impact on their health and adds to the costs of healthcare. With lower pollution health care costs will fall. • The pollution has an impact on the health of workers also affected firms who found workers to be less productive and absent more often- firm may lose profits with lower levels of output. With less coal mining workers will be less likely to be absent and more productive • Diagram may be offered showing lower output and the size of the external costs falling	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of external costs. A diagram may be offered and inaccurate. 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 external costs in the context of mining. This may be supported by an accurately labelled diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	5-6	Clear understanding of external costs in the context of mining. This may be supported by an accurately labelled diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

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Evaluation – indicative content		
	• Magnitude – depends on the level of reduction in coal mining • Measurement issue- measuring the change in external costs is difficult • Time period: may take time for pollution levels, and health to improve • Coal mining comes with benefits in terms of employment, providing power to keep businesses productive/ mining employment falls	

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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Question Number	Answer	Mark
9(d)		**(14)**
Knowledge, application and analysis – indicative content		
	• Definition of relocation subsidy- cash grant paid to unemployed to move location • Diagram may be offered showing impact of subsidy • Subsidy lower costs to move • Encourages more to move location • This will help cover the transport costs and housing costs of moving location • This will add to the costs of the Government • By moving people to where jobs exist the need to pay unemployment benefits will fall • 7.4 million unemployed in the USA will help move number into employment • 27.5% unfilled vacancies can be reduced • Geographical immobility of labour will be reduced Candidates may present benefits or problems as KAA and offer alternative perspective as evaluation	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of relocation subsidies but information 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 the relocation subsidy. This will be supported by an accurate diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the relocation subsidy. This will be supported by an accurate 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.

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Evaluation – indicative content		
	• Magnitude – depends on the level of subsidy offered in terms of whether it will cover additional housing or transport costs • Measurement issue- measuring how many it will encourage to move will be difficult • Time period: may take time for people to adjust to move/ if only offered for limited time will not have long term impact • Even with the subsidies some unemployed will be reluctant to move due to family and friends in their current location	
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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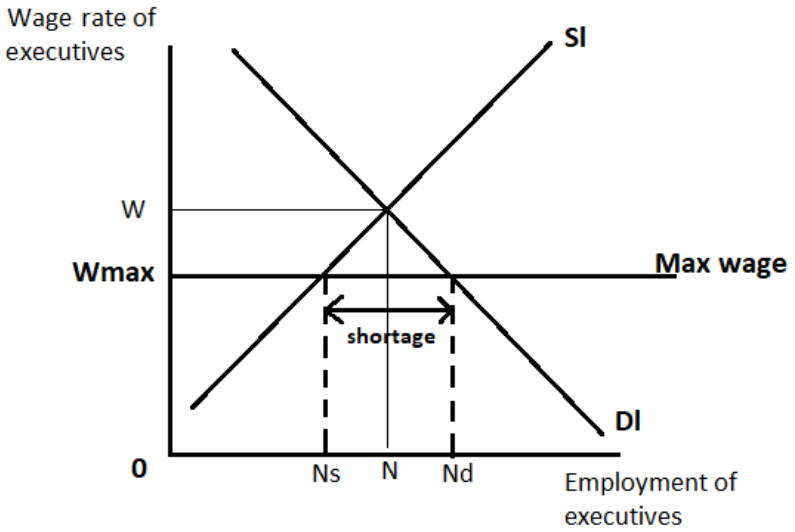
Question Number	Answer	Mark
9(e)		**(14)**
Knowledge, application and analysis – indicative content		
	• Definition of maximum wage- the wage ceiling above which firms cannot pay workers • Diagram showing maximum wage below the equilibrium for executives or footballers  • Excess demand for labour/ shortage of labour (may be drawn on diagram) • Supply of labour contracts (may be drawn with arrow on diagram) • Demand of labour extends (may be drawn with arrow on diagram) • The gap between the richest and poorest can be narrowed • Business leaders have seen their earnings rise to very high levels/ it takes 4 days for the top executives to earn the same as an average worker in the UK earns in a year- this is unfair and the maximum wage will prevent such high earnings. • Footballers earning more than £50 million per year excessive/ top 10 models earning £50 million excessive • Recruitment becomes more difficult for employers as they will be limited in terms of the financial rewards they can offer • Imposing the maximum wage could see the tax revenue of the Government fall. Lost tax revenue- the richest 1% pay 27% of the income tax earned by the Government.	

	• One problem of a maximum wage is that some of those high earners will leave the country to seek higher pay abroad where maximum wages are not in place- brain drain Candidates may present benefits or problems as KAA and offer alternative perspective as evaluation	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of maximum wage but information presented is often irrelevant and lacks organisation. Diagram may be inaccurate. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the maximum wage. This will be supported by an accurate diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the maximum wage. This will be supported by an accurate diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Magnitude – depends on the level of maximum wage set in terms of the number affected • Measurement issue- measuring how many might leave due to the maximum wage or other factors • Time period: may take time for people to find alternative employment so short term little impact but after research they may move. • Magnitude of tax losses to government may be large • If a maximum wage was set too low football teams in the UK would struggle to attract the best players from other football teams in Europe- making football in UK less competitive • Some sports players can earn more than the maximum wage through sponsorship deals	

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.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

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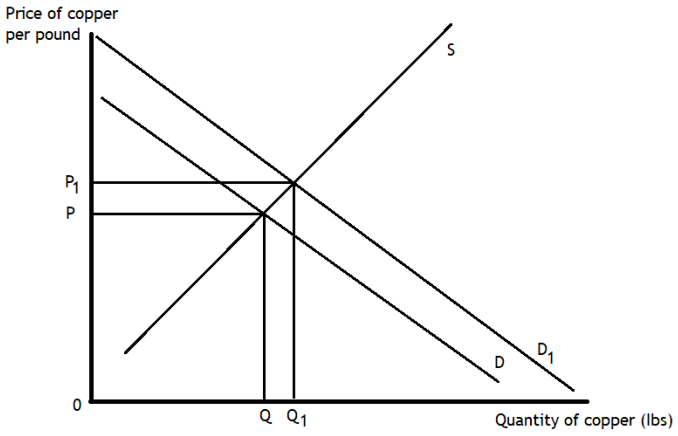
Question Number	Answer	Mark
10(a)	**Knowledge, application and analysis (up to 6 marks)** • Price increased to $3.11 per pound/ any relevant data reference to Aug 2017/ highest price since September 2014 **(1)** • Demand from China increased/ China's improved economic growth increased demand **(1)** • China restricted imports of recycled copper so more have substituted to mined copper **(1)** **Diagram showing demand increasing** • Original equilibrium **(1)** • New equilibrium **(1)** • Shift in demand to the right **(1)**  	**(6)**

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Question Number	Answer	Mark
10(b)	**Knowledge, application (Up to 4 marks):** **Up to 2 Knowledge marks** • Definition or formula of PED- $\%\Delta Q_D/\%\Delta P$ **(1)** Definition of price inelastic **–**e.g. where PED is less than 1/ % change in quantity is smaller than change in price **(1)** • **OR** Diagram may be drawn to illustrate price inelastic demand **(1)** **Up to 2 Application marks** • Lack of close substitutes **(1)** so likely to be price inelastic as little option to substitute to if price rises **(1)** • Costs and delays in switching to aluminium **(1)** so demand takes time to respond making it more inelastic **(1)** • **Alternatively**- some possible substitutes so may be price elastic in long term **(1)** • It is an essential metal in industry/ electronics **(1)** this meaning even if price rises the demand will not change by as much **(1)**	**(4)**

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Question Number	Answer	Mark
10(c)		**(10)**
Knowledge, application and analysis – indicative content		
	• Definition or formula of PES= $\%\Delta Q_s/\%\Delta P$. • Definition of price elastic –e.g. where PES is greater than 1/ % change in quantity is greater than change in price • Definition of price inelastic –e.g. where PES is between 0 and 1/ % change in quantity is smaller than change in price • The supply of copper is usually unresponsive to price movements in the short term suggesting inelastic • This is due to the high fixed costs and lengthy start-up times involved in developing new copper mines. • Existing copper mining businesses are working close to their current capacity so cannot increase supply to meet demand suggesting inelastic as they cannot respond to price rises. • It can take huge price changes in the market for supply to respond sufficiently to bring the market back to equilibrium again suggests responsiveness smaller at small price changes • When the global economy slowed copper was stored and these stocks can be used to meet demand suggesting they can respond and it is more elastic • Diagram may be drawn to illustrate appropriate elasticity of supply Arguments elastic or inelastic may be presented as KAA and opposite presented as evaluation	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of likely PES. 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.

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2	3-4	Understanding of PES for copper. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	5-6	Clear understanding of PES related to mining. Accurate diagram drawn and explained. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Time- may vary over time with generally more elastic in long run. • Depends on how long higher prices are expected to last • Magnitude- depends on size of any price changes as to whether it becomes more profitable and attracts more supply • Opportunity costs- depends on the relative price of other metals mined by firms	

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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Question Number	Answer	Mark
10(d)		**(14)**
Knowledge, application and analysis – indicative content		
	• Subsidy- Cash grant paid to encourage production/ business set up Diagram may be offered – could relate to labour or product market • $3 billion subsidy is encouraging $10 billion investment from Foxconn • Helps to employ 13 000 workers directly • Further jobs created with 19 000 to 26 000 with suppliers and other businesses • Provide LCDs for TVs, computers and medical equipment • External costs as may cause more environmental damage as production requires use of copper, mercury and zinc • External costs linked to transport of metals and LCD panels may cause environmental damage • For every $1 subsidy benefit will be $3.90.- so $3 billion generate $11.7 billion of benefits. • External costs as they will be able to discharge materials into lakes/ reroute streams • May help create jobs that encourage people to stay in the region • Cost to Government to fund the subsidy has an opportunity costs as funds cannot be spent elsewhere	

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Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of impact of subsidy. 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 writing is generally unclear.
2	4-6	Understanding of subsidy, with some application to context. This may be supported by an accurately labelled diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the subsidy in the context. There may be an accurately labelled diagram which is explained and applied effectively to the context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Foxconn will be required to restore two acres of wetlands for every one acre it destroys • Magnitude- significant subsidy will have big impact on employment • Measurement- hard to quantify how many benefits will come from subsidy • Time period- short run- some environmental damage but long term they will be expected to replace damaged wetland • People living in neighbouring regions may experience benefits e.g. employment or costs e.g. environmental damage	

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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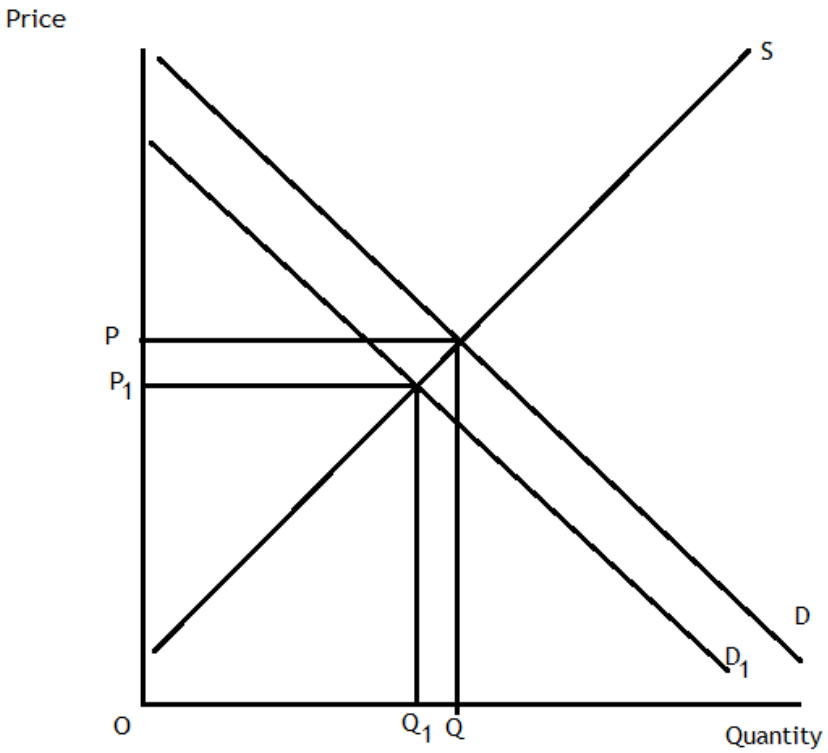
Question Number	Answer	Mark
10(e)		**(14)**

Knowledge, application and analysis – indicative content

- Emigration- when people leave a region
- Net migration looks at numbers entering the country/region and leaving the country/region
- Wisconsin, struggling to train, attract and retain enough workers.
- Net migration between 2010 and 2015 saw 17 000 more leave than enter Wisconsin.
- Labour market- supply of labour falls- may push up salaries, reduce employment
- Demand in housing market may fall due to lower number of consumers demanding houses
- As housing market shrinks the demand for labour will fall



- House prices may fall
- Quantity of houses built will fall
- Consumer surplus falls
- Producer surplus falls
- Total revenue for construction businesses falls

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of impact of net migration.

		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 net migration, 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 net migration and linked to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – indicative content		
	• Magnitude- 17 000 leaving may be seen as a large amount/ as proportion of population this may not be as significant • Outward net migration may be more than offset by an increase in the natural rate of growth of population • Not only problem- retirements and birth rates also have an impact on labour market and consumption • Depends on quality of the labour leaving- may be an issue of brain drain • Foxconn investment may see this trend reverse in future- attracting more to Wisconsin • Depends on supply of new housing in the region	

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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