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Mark Scheme (Results)

Summer 2015

Pearson Edexcel International Advanced Subsidiary in Economics (WEC01/01)

Unit 1: 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 for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
1	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of a normative statement is a value judgement/ cannot be tested to prove/ disprove **(1)** • Definition of a positive statement- an assertion of a fact/ can be proved/ can be tested/ scientific approach / value free **(1)** • Application: in statement 1 the statistics/facts about the tax on tourists e.g. 500 baht show that it is a positive statement (1) • Application: in statement 2 the word 'fair' shows it is a value judgement (1) **Rejection marks** • Option A: incorrect as Statement is not normative as it has statistics e.g. 500 baht so is positive **(1)** • Option B: incorrect as statement 1 has statistics so is positive and statement 2 has value judgement e.g. fair so normative (1) • Option C: incorrect as statement 2 is normative as it has a value judgement**(1)**	**(4)**

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Question Number	Answer	Mark
2	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of a production possibility frontier- the maximum combination of goods that can be produced with all available resources **(1)** • Unemployed resources when below the PPF at point X on C **(1)** • There could be unemployed labour or capital that is not in use (1) • Efficient allocation of resources when there is no waste which occurs on the PPF. So Y on C (1) • Movement from X to Y shows increase in output and full employment of resources (1) **Rejection marks** • Option A: Incorrect because X shows efficient allocation of resources in first time period and Y is efficient allocation in second time period/ shows economic growth in terms of increased productive potential (1**)** • Option B: Both X and Y are efficient allocation of resources but shows the economy experiencing decreased productive potential **(1)** • Option D: X is efficient allocation of resources and moves to inefficient allocation where resources are wasted. **(1)**	**(4)**

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Question Number	Mark	
3	**C** • Definition of renewable resources- where resources are not depleted after use/ the resource can be used repeatedly/ once used not run out/ replenished (1) • Definition of non-renewable resources- where resources are depleted after use/ the resource cannot be repeatedly consumed/ eventually run out/ not relenished (1) • Application- In Brazil Hydro+ other renewable= 29+21=50 % (1) • In Brazil- Other non-renewable+coal+natural gas+oil= 1+3+7+39= 50% (1) **Rejection marks** • Option A: Incorrect as renewable in Brazil Hydro+ other renewable= 29+21+50 % which is not greater than 51% (1) • Option B: Incorrect as non-renewable in Brazil- Other non-renewable +coal+natural gas+oil= 1+3+7+39= 50% which is not greater than 51% (1) • Option D: incorrect as hydroelectric is 29% and oil is greater than this at 39% (1)	**(4)**

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Question Number	Answer	Mark
4	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of asymmetric information- where one party has superior information to another / OR of imperfect information(1) • Explanation that this is market failure as resources are misallocated. (1) • Dentist has superior knowledge about what patient actually needs (1) • Patient has inferior knowledge and the dentist may use this to their advantage (1) • The unnecessary treatments and non-essential work occur because the patient is unaware that they are being exploited (1) • **Rejection marks** • Option A: the consumers here are not likely to feel valued as the dentist is offering unnecessary treatments (1) • Option B: Incorrect as private benefits are likely to exist but third parties are unlikely to benefit/ non-essential work is likely to incur costs rather than any external benefits.(1) • Option C: Incorrect as there is rivalry for dental appointments and excludability as others do not benefit from the treatment of a person/ the free rider problem is not prevalent for dental appointments (1)	**(4)**

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Question Number	Answer	Mark
5	**A (1 mark)** **Explanation (up to 3 marks)** • Definition of geographical (im)mobility of labour- where individuals are (un)likely to move between geographical locations (1) • Application: Relocation subsidy- where the local government makes a payment to encourage people to relocate (1) • Application: subsidy lowers the cost of moving to the location increasing the incentive to move there / more affordable (1) • People are more likely to move to Otorohanga as the cost of doing so is now lower / will increase the supply of labour(1) **Rejection marks** • Option B: the subsidy will encourage people to move to the area and increase the supply of labour. **(1)** • Option C: Occupational immobility is where labour finds it difficult to move between occupations and this is unlikely when the subsidy is offered. **(1)** • Option D: incorrect as a subsidy would lower the cost of moving there and this should encourage labour to move to the location- this increases the mobility of labour **(1)**	**(4)**

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Question Number	Answer	Mark
6	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition or formula for XED- responsiveness of Quantity Demanded of good x to a change in Price of good y (1) • OR %ΔQDx÷ %ΔPy **(1)** • XED >0 means it is a substitute (1) • As the price of rail travel rises people would switch to consuming bus travel as now relatively cheaper/ price of one rises- the demand for the other will rise (1) • E.g. 10% increase in price of rail travel will see 1% or more increase in demand for bus travel (1) • Goods in competitive demand as you can use bus or rail • Diagram showing as price of rail rises, QD of bus travel rises (1) **Rejection marks** • Option A: milk and cheese are not substitutes as the price of milk rising will not cause people to switch to cheese. (1) • Option B: Incorrect as computer consoles and games are compliments and are likely to have XED<0 (1) • Option D: incorrect as likely to be unrelated goods with XED=0 (1)	**(4)**

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Question Number	Answer	Mark
Q7	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Definition of external costs- costs incurred by third parties/ costs not accounted for by the first and second party (buyer and seller) / externalities defined (1) • Definition of welfare loss (1) • External costs are the dumped waste in wells (1) • Market equilibrium at X with E and B/ Social optimum at Z with A and D (1) • Over production B-A (1) • Welfare loss from over production of chemicals explained (1) • Market failure as misallocation of resources (1) **Rejection marks** • Option A incorrect as Social optimum quantity is A< market equilibrium quantity B (1) • Option B as third parties experience a cost there is no gain for society of this over consumption (1) • Option D The subsidy would increase production and increase the size of over consumption/ welfare loss./ indirect tax would help reach the social optimum (1)	**(4)**

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Question Number	Answer	Mark
8	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of rationality- where consumers seek to maximise their utility (1) • The price rise of 8.2% creates an incentive to move energy providers (1) • To maximise utility people will switch to benefit from cheaper tariffs (1) • 50 000 switching suggests people were seeking to increase their utility (1) **Rejection marks** • Option A: if they were poor at computation they would not necessarily calculate that they would be worse off and fewer may switch (1) • Option C if consumers were habitual they would continue to stay with their current supplier- the fact they moved shows they were less habitual (1) • Option D: consumers would seek to maximise and NOT minimise their total utility (1)	**(4)**

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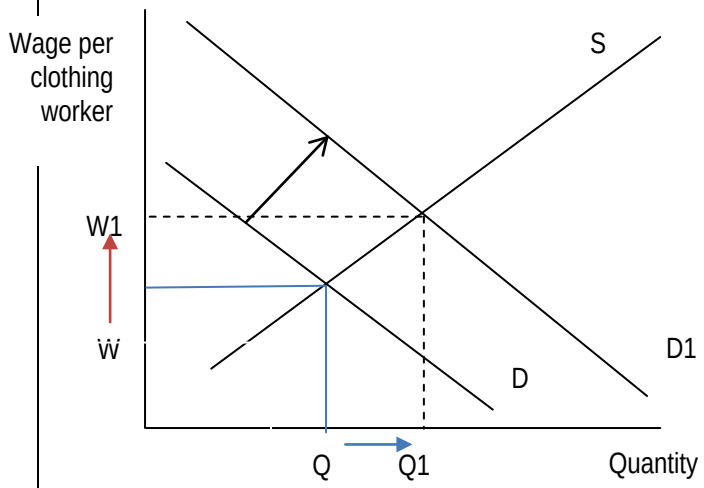
Section B: Data response

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)** • Explicit reference to Extract 1 **(1)** • More quantity is needed so firms will demand more labour to fulfil orders / derived demand (1) • Wages rise (1) • Employment rises (1) Diagrammatic analysis which shows: • a shift to the right of the demand curve **(1)** • original equilibrium wage and quantity **(1)** • new equilibrium wage and quantity **(1)**  **NB: Award a maximum of 4 marks if no diagram.**	**(6)**

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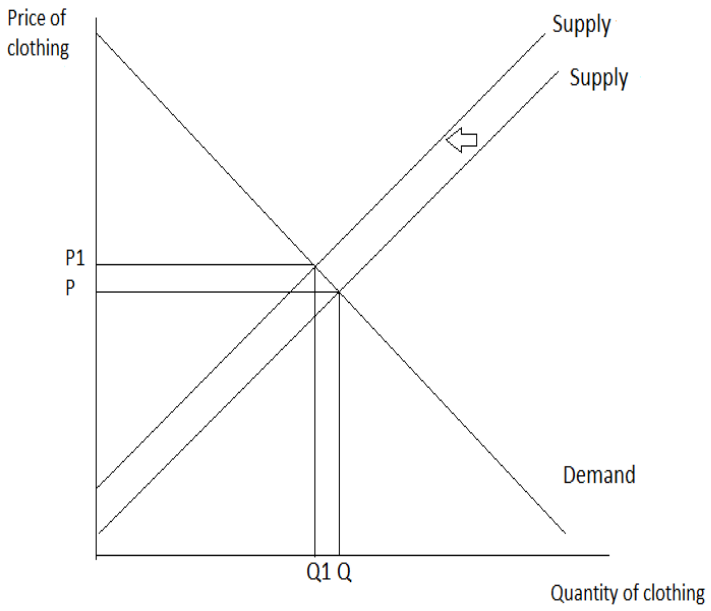
Question Number	Answer	Mark
9(b)		**(14)**
Knowledge, Application and Analysis – Indicative content		
	• Prevent deaths- 1 100 killed in clothing factory fire/ 1 000 died 1990-2012 • Reference to 'improve workers safety' • Regulation- rules set about the minimum standards with which workers should work • Creating right for union membership- to protect interests of workers Economics effects may be presented as KAA but the other viewpoint may be accepted as evaluation. Economic effects (negative) • May increase costs to firms to enforce the higher standards • This may lead to leftwards shift of supply • Forcing up prices and down quantity • Redundancy/ unemployment • May affect the competitiveness of Bangladesh- 80% exports are in clothing industry • Rising costs may reduce profits (margins) and force firms to shut down/ may result in lower tax revenue • May push up costs and price charged to western retailers who may look elsewhere in region • Diagrammatic analysis may be offered showing:  	

	Economic effects positive • May be more attractive to work for firms if conditions are better • Higher standards may be attractive to retailers clothing suppliers supply • Less compensation needed as less injuries or deaths	

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

Evaluation – Indicative content		
	• Magnitude of regulation- impact on sector that employs 4 million • how strict/ enforceable it is • Time period: short term whilst media spotlight on them but long term gets lower priority • Attempts to regulate little success e.g. 29/5000 now unionised • Retailers demand stricter safety standards so the increased costs may have more to do with retailers than regulation	

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

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Question Number	Answer	Mark
9(c)		
Knowledge, Application and Analysis – Indicative content		
	• Definition of PED- responsiveness of QD to a change in price OR %ΔQD/%ΔP (1) • Price paid for clothes will rise with rise in minimum wage (1) • 'continue to purchase similar quantities of clothes, even at the higher price' (1) • Demand is price inelastic (1) • As 0 < PED < 1 (1) • As increase in price sees small change in quantity demanded/ insensitive to changes in price (1) • Diagram showing relatively inelastic demand curve (1) • Depends if substitutes available- if they are then elasticity may be more elastic (1)	**(4)**

Question Number	Answer	Mark
9(d)		**(14)**
Knowledge, Application and Analysis – Indicative content		
	• Definition of Minimum wage-the lowest amount of wages a firm will be able to pay workers • 50-80% increase in minimum wage from low of $39 • factories have to charge suppliers 30% more • Affect Bangladesh's very low prices. • Costs already high due to standards being set by retailers- could mean they shut down • Diagrammatic analysis - Showing an increase in minimum wage E.G. MW to MW1 - QD falls from Q2 to Q1 - QS falls rises from Q3 to Q4 - Unemployment rises to Q4-Q1	

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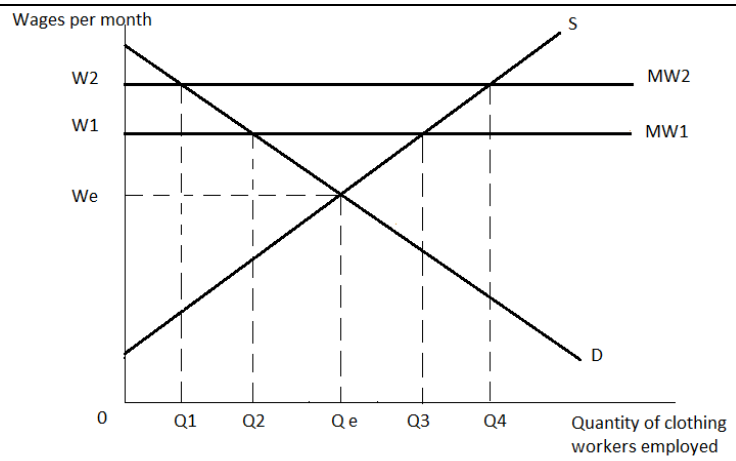

Possible positives from minimum wage

- End strikes- which mean no production and costly for Business e.g. losing contracts
- Even with increase it is below wages paid in Vietnam and Cambodia- affordable
- Walmart and retailers pleased to see higher pay for clothing workers
- Willing to pay more- continue to purchase
- Able to meet basic needs- living costs- at moment many rely on small loans

Positives and negatives may be presented as either KAA or EV

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of minimum wage. 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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Level	Marks	Descriptor
2	4-6	Understanding of minimum wage in the context of clothing. 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 minimum wage in the context of clothing. This may be supported by an accurately labelled diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.
Evaluation – Indicative content		
	• Magnitude- significant rise- 50-80% • Measurement problem- difficult to measure impact • Time lag- may keep buying when costs rise to buy from Bangladesh but may substitute when contracts expire	
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 some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

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Question Number	Answer	Mark
9(e)		**(10)**
Knowledge, Application and Analysis – Indicative content		
	• Discuss the advantages and disadvantages of Bangladesh's specialisation in clothing production for firms in the industry. • Definition of specialisation- where individuals/ firm/ nations focus on the production of one product over another Advantages • Total output increases when firms specialise in the production of one good • External economies- the availability in the country of skilled or trained labour • Build a reputation as a leading producer of clothes • Buyers know to visit Bangladesh when seeking suppliers Disadvantages • Risks if demand/ price falls- 80% of exports affected • Less choice in terms of employment for workers • Low wage employment- better to specialise on products where profit margins are larger Advantages or disadvantages may be used as either KAA or Ev	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of the advantages or disadvantages of specialisation
2	3-4	Understanding of advantages or disadvantages of specialisation with some application to context.
3	5-6	Clear understanding of advantages or disadvantages of specialisation with detailed explanations of them and with appropriate application to context.

Evaluation – Indicative content		
	• Time- over time they can use revenues to move in to more productive and profitable sectors • Magnitude- 80% exports/ 4 million- a lot to rely on one sector • Depends on elasticity of demand- YED- positive we are OK. PED etc.	

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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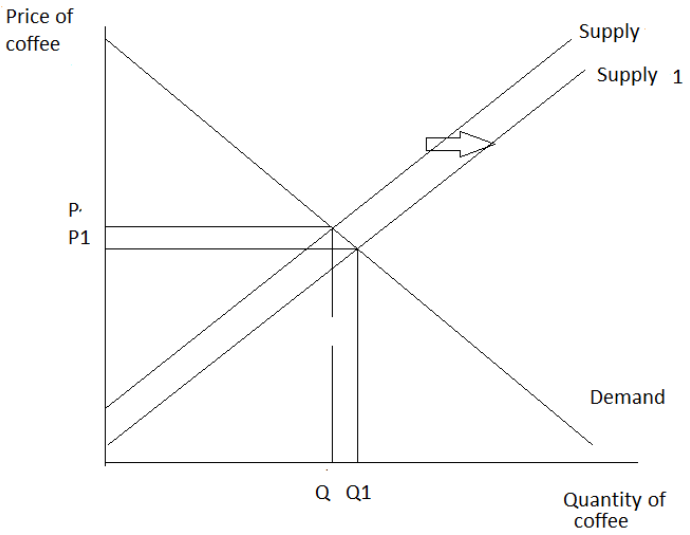
Question Number	Answer	Mark
10(a)	**Knowledge, Application and Analysis (up to 6 marks)** • 300 US cents per pound Apr 2011 to roughly 135 US cents per pound Oct 2013/ 4 ½ year low (1) • Good harvest in Latin America (1) • Improved weather conditions (1) Diagrammatic analysis which shows: • Original equilibrium price and quantity (1) • New equilibrium price and quantity (1) • Rightward shift of supply (1) • (It is acceptable for supply to be drawn elastic or inelastic)  o **NB: Award a maximum of 4 marks if no diagram.**	**(6)**

Question Number	Answer	Mark
10(b)	**Knowledge, Application and Analysis (Up to 4 marks):** • Definition of PES- responsiveness of QS to a change in price OR %ΔQS/%ΔP (1) • Define price inelastic: where the quantity supplied is less responsive to changes in price / where PES<1(1) • particularly Brazil, where coffee farmers have slowly cut back to favour of more profitable crops, (2) • Shows falling price has made them adjust their supply but this is slow (1) • PES is likely to be less than 1 and therefore inelastic. (1) **Maximum 2 marks if no data reference**	**(4)**

stion Number	Answer	Mark
10(c)		**(10)**

Knowledge, Application and Analysis – Indicative content		
	• Definition of public goods- a good which is non-excludable and non-rival/ good that experiences the free rider problem • Definition of private goods- a good that is both excludable and rival • Roads- non excludable- it is difficult to prevent others from using the roads • Roads non-rival- one person's use does not diminish the consumption of another **KAA arguments maybe used as evaluation or vice versa**	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness of public/ private goods in relation to roads
2	3-4	Understanding of the how roads may be excludable/ rival or not in the context of roads.
3	5-6	Clear understanding of how roads may be excludable/ rival or not in the appropriate context of roads

Evaluation – Indicative content		
	• Congestion- with a lot of cars on the road and traffic this means that there is rivalry between drivers • One consumers use of the road may affect the utility derived for another driver • Non excludability- difficult to exclude drivers • Tolling/ charges could help exclude • Different times of the day- e.g. rush hour- more private good/ quieter times more public good	

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

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

Knowledge, Application and Analysis – Indicative content		
	• Definition of minimum price- the lowest price the government will allow the price to be set before the government intervenes • Accept definition of buffer stock- where the government	

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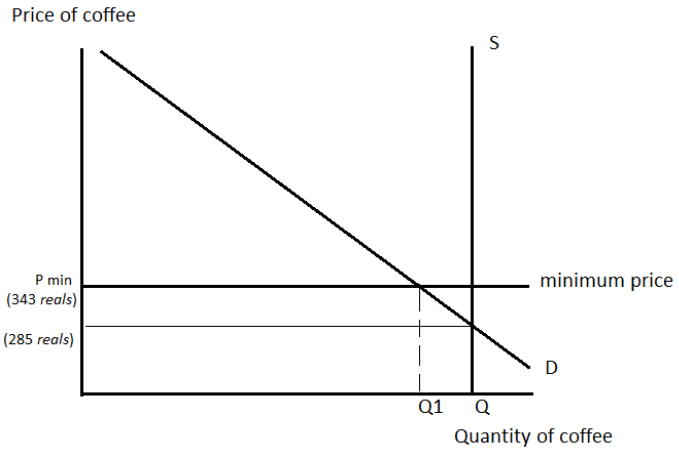
	will intervene when the price goes below the minimum price or above the maximum price • When price is too low the government will buy supply • And add this supply to its stockpile • This reduction in supply left in the market leads to increased prices to the minimum price. • Has the effect of stabilising the price • Income of farmers is stabilised / increases coffee growers incomes/ currently get 285*reals*- will get 58*reals* more 285 *reals* • This makes it easy to plan and businesses more likely to invest as they have a minimum guaranteed price/ make borrowing easier • Stockpile will be available at a later date if the price reaches the maximum price. • Stops protests and costs theses occur in terms of lost output/ policing etc • Diagrammatic analysis - Identifying minimum price - Supply leads to price P and output Q - Government buys up quantity Q-Q1 and adds to stockpile  	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of minimum price/ buffer stock in agriculture. 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 minimum pricing, with some application to context. 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	7-8	Clear understanding of the minimum pricing in agriculture. There will be an accurately labelled diagram which is explained and applied effectively to the context.

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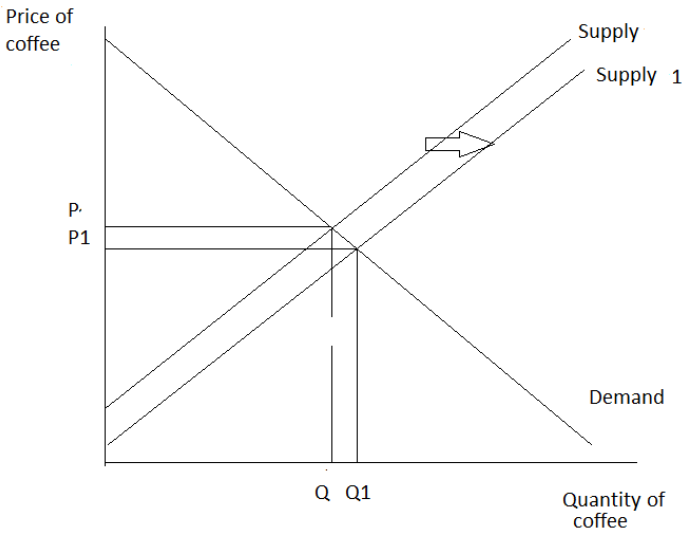
		Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content		
	• Magnitude- depends on the size of the measure • Can Brazil impact the world supply?- lots of supply from the rest of the world will drive down the price • Stockpile might go off and be worthless in future years when need to sell stock if reach maximum price • Costly for government- opportunity costs- will not be able to spend in other items	

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

Question Number	Answer	Mark
10(e)		**(14)**
Knowledge, Application and Analysis – Indicative content		
	• Definition of Subsidy- where the government makes a payment to encourage the production or consumption of a product Producers • Reduces the costs to the firms • Supply increases • Quantity will increase and price fall further • Support incomes May be shown diagrammatically: • Supply rises- shift • Quantity rises/ Price falls new equilibrium  	

	Government • Identify costs to government- may be on the diagram • Opportunity costs- cannot spend the funds on other things • Lack tax revenue to afford it- build a budget deficit • Maintains employment- so less benefit payments/ more tax revenue Award level 2 if both government AND producers are not both discussed	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of subsidies. 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 subsidies, 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 subsidies with effective application to context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

Evaluation – Indicative content		
	- Magnitude- impact depends on size of spending - Short run- can afford- unsustainable long run - Measurement- how much subsidy should be offered	

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

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