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Mark Scheme (Results)

January 2023

Pearson Edexcel International Advanced Level In Economics (WEC11) Paper 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

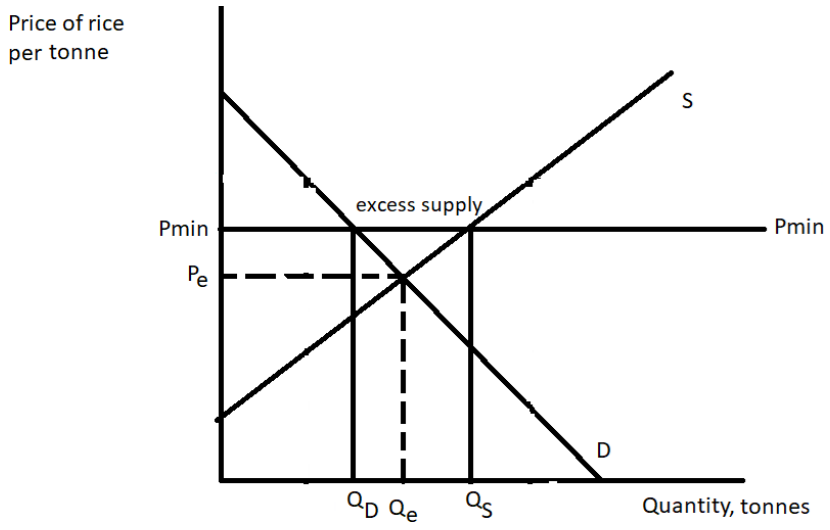
Question	Quantitative skills assessed	Answer	Mark
1		**The only correct answer is C** **A** is not correct because it is the government's role to collect tax revenues **B** is not correct because financial markets have no role in minimising utility **D** is not correct because the government provides public goods	**(1)**
2	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** **A** is not correct because if consumers felt undervalued they are more likely to leave **B** is not correct because if consumers have good computational skills they will calculate the fact they are paying £108 more **C** is not correct because the free-rider problem relates to the underprovision of public goods	**(1)**
3	**QS8**: Make calculations of elasticity and interpret the result **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** **A** is not correct because the demand for the railway tickets in Guadalajara is price inelastic **C** is not correct because an increase in the price of railway tickets in Monterrey will increase total revenue **D** is not correct because there is no data on income provided	**(1)**

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4	**QS4**: Construct and interpret a range of standard graphical forms **QS8**: Make calculations of elasticity and interpret the results **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** **A** is not correct because the change in price and quantity are both positive so the PES will be positive **B** is not correct because the value of PES is positive as both price and quantity increase **C** is not correct because this has been calculated using the formula the wrong way round	**(1)**
5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** **B** is not correct because the government intervention causes the net welfare loss not the market **C** is not correct because this is positions above the PPF **D** is not correct because this is when consumers do not have the energy to find better deals	**(1)**
6	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** **A** is not correct because position Y is unobtainable **B** is not correct because the opportunity costs is in terms of consumer goods **C** is not correct because the movement shows a decrease in unemployed resources	**(1)**

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Section B

Question	Draw a diagram to illustrate the impact of the introduction of this minimum price for rice. **Answer**	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 showing knowledge on diagram • Original supply and demand **(1)** **Application** Up to 3 marks for the following information included on diagram: • Minimum price above equilibrium price **(1)** • Quantity demanded and supplied at minimum price **(1)** • Excess supply/surplus **(1)**  	**(4)**

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Question	With reference to health insurance, explain what is meant by moral hazard. **Answer**	**Mark**
8	**Knowledge 1, Application 1, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for understanding moral hazard e.g.: • Where the consumer does not suffer from the consequences of their action/ • Where the costs associated with risks of an action are transferred to another party **(1K)** **Application** 1 mark for applying to health insurance e.g.: • 68% of those without health insurance visited a dentist but 88% of those with health insurance visited a dentist/ • Those with health insurance visited the dentist more often than those without health insurance **(1AP)** **Analysis** up to 2 marks for linked expansion • The consumers that are insured take more risks with their health **(1AN)** and are therefore more likely to need healthcare and make a claim/ so they are less careful with their health **(1AN)** • The consumer is more likely to smoke/eat sugary food/drink fizzy drinks **(1AN)** as any healthcare costs to treat teeth are covered by the insurance policy **(1AN)**	**(4)**

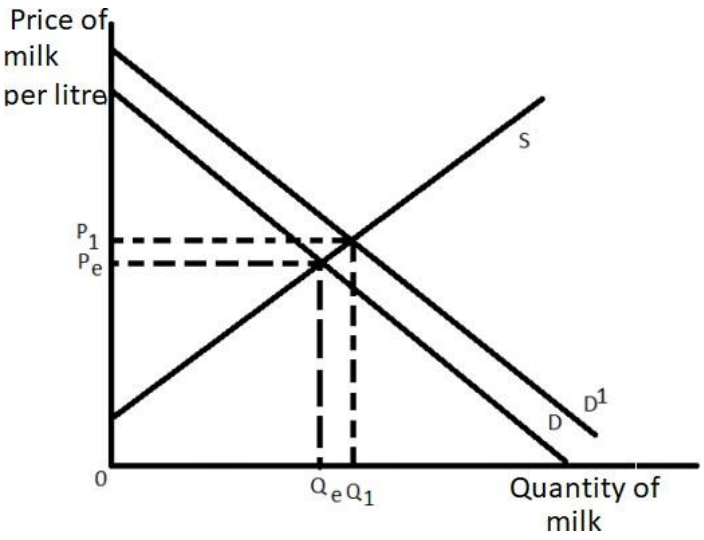
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Question	With reference to the information provided, explain the difference between private benefits and external benefits. **Answer**	Mark
9	**Knowledge 2, Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for understanding of 'private benefits' • Private benefits are benefits/positive impacts on the buyer or seller/first/second party **(1)** 1 mark for understanding of 'external benefits' • External benefits are benefits/positive impacts on third parties/positive spillovers/ MSB > MPB **(1)** **Application** 1 mark for reference to private benefits in stem • Benefits to her neighbour, Tania, of earning revenue through selling honey/ • Benefits to Emiliana of earning revenue through selling sunflower seeds **(1)** 1 mark for reference to external benefits in stem • Emiliana's production increased from 300kg of sunflower seeds to 620kg of sunflower seeds/ • The honey bees help pollinate Emiliana's sunflowers increasing her output **(1)**	**(4)**

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Question	*Ceteris paribus*, calculate the income elasticity of demand for cars between 2011 and 2021. Show your working. **Answer**	Mark
10	**Knowledge 1, Application 3** Quantitative skills assessed: **QS8:** Make calculations of elasticity and interpret the result. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for definition/the formula for income elasticity of demand % change in quantity demanded % change in income **OR** 1 mark for identifying that cars are normal goods **(1)** **Application** Up to 3 marks for calculations: • Change in quantity 14 926 900 – 12 741 800 = 2 185 100 Change in quantity ÷ original quantity x 100 2 185 100 ÷ 12 741 800 x 100 = 17.15% **(1)** • Change in income 44 225 – 31 024 = 13 201 Change in income ÷ original income x 100 13 201 ÷ 31 024 x 100 = 42.55% **(1)** % change in quantity demanded % change in income • 17.15 ÷ 42.55 = 0.40 **(1)** **NB: if correct answer (e.g. 0.40 to 2 d.p./0.403055 to 6 d.p./ 0.4030245 without any rounding) is given, award full marks regardless of working.**	**(4)**

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Question	Explain the likely impact of a 5% increase in the price of sugar-sweetened drinks on the demand for milk. **Answer**	Mark
11	**Knowledge 1, Application 1, Analysis 2** Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS8:** Make calculations of elasticity and interpret the result. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** • 1 mark for definition or formula of cross elasticity of demand e.g.: The responsiveness of quantity demanded of good A to a change in the price of good B **or** % change in quantity demanded of good X % change in price of good Y **(1)** **Application** 1 mark for identifying that the two goods are substitutes Milk and sugar-sweetened drinks are substitutes **(1)** **Analysis** Up to 2 marks for linked expansion • The demand for milk will increase **(1)** by 1.25% **(1)** **Or**  	**(4)**

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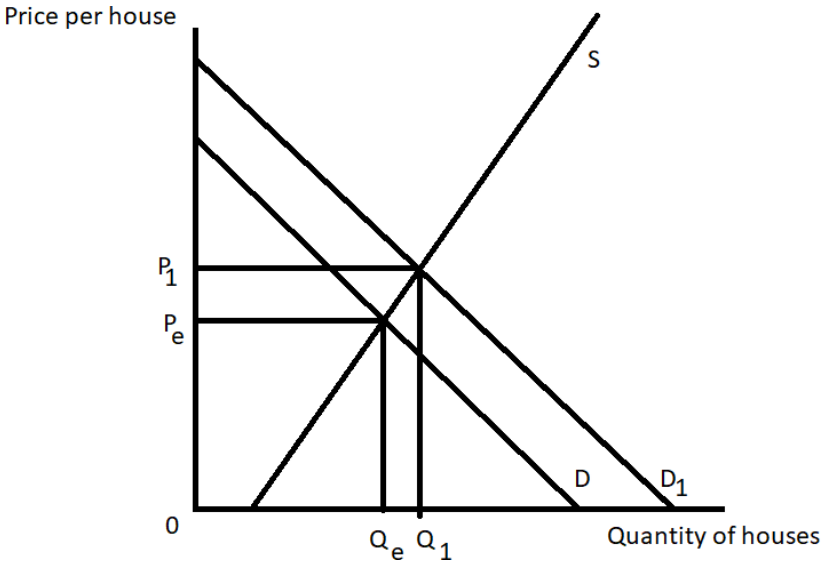
	• For showing increase in demand **(1)** • For showing increase in equilibrium price/quantity **(1)** **Or** • If the price of sugar-sweetened drinks increases, consumers will buy more milk causing the demand for milk to increase **(1)** the percentage increase will be less than 5% as the cross elasticity is inelastic **(1)** • Not close substitutes **(1)** so the impact so will result in a less than proportionate impact on the quantity of milk demanded **(1)**	

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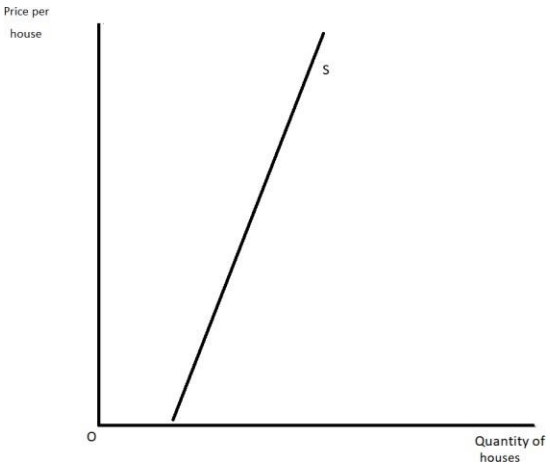
Section C

Question	Define the term 'market failure' (Extract A, line 14). **Answer**	**Mark**
12 (a)	**Knowledge 2** Up to 2 marks for defining 'market failure', e.g.: • Where the market/the price mechanism **(1)** leads to an inefficient allocation/misallocation/over allocation/under allocation of resources **(1)** • A market/housing bubble in New Zealand/homelessness **(1)**	**(2)**

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Question	With reference to paragraph 1 of Extract A, analyse **two** reasons why house prices increased between March 2020 and March 2021. Illustrate your answer with a supply and demand diagram. **Answer**	Mark
12 (b)	**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)** • Final equilibrium after rightward shift in demand curve **only (1)** **Analysis** up to 2 marks for analysis linked to demand e.g.: • Increasing real incomes/above average rate of economic growth **(1)** • 0.25%/low base interest rates/cheap to borrow **(1)** • Immigration following the global health crisis **(1)** **Application** 2 marks for: • Rightwards shift in demand on diagram **(1)** • House prices in New Zealand increased by 15.7%/the average house price had risen to NZ$925 000 **(1)**  	**(6)**

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Question	With reference to Extract B, explain why the supply of new houses is likely to be price inelastic. **Answer**	Mark
12 (c)	**QS8:** Make calculations of elasticity and interpret the result. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge 2 Application 2** **Knowledge** Up to 2 marks for understanding of inelastic supply: • Price inelastic supply is where a change in price results in a less than proportionate change in quantity supplied **(1)** • Supply is not price sensitive **(1)** • Where PES is between 0 and 1 **(1)** • Supply cannot respond quickly to a change in price **(1)** • Diagram to show inelastic supply **(1)**  **Application** Up to 2 marks for application: • June 2018 to July 2020 the Government built 6 000 homes **(1)** • There is much paperwork needed to obtain planning permission **(1)** • Local authorities limit the land on which houses can be built **(1)** • There is a shortage of over 55 000 construction workers **(1)**	**(4)**

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Question	With reference to Extract C, examine whether national parks in New Zealand are public goods. **Answer**	Mark
12(d)	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge and Analysis** up to 2 knowledge marks for identifying two points; and up to 2 analysis marks for linked explanations, e.g. • consumption is non-excludable **(1K)** as no-one can be prevented from using the national park land **(1AN)** • there is non-rivalry **(1K)** as one person enjoying the national park has little impact on others **(1AN)** • the land is too large to be able to exclude people **(1K)** as there would be too many fences to put up around each national park **(1AN)** • people will free ride the park **(1K)** by using it without paying **(1AN)** **Application** Up to 2 marks for reference to Extract C • 13 national parks/30 000km^2 **(1AP)** • So much space that that an individual will rarely meet another person **(1AP)** • Parks can be explored on foot/by boat/car **(1AP)** • Walk, run or cycle across the national parks without charge **(1AP)** **Evaluation** Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.: • Very busy in the summer season meaning there may be rivalry with other national park visitors **(1+1)** • Car parking spaces are hard to find making national parks excludable **(1+1)** • Some activities like skiing or kayaking are paid for suggesting they are excludable **(1+1)** • At different times of the year, when the weather is good it is likely rivalry may emerge **(1+1)** • It depends on the activity being undertaking in the park as the requirement for equipment may make it excludable **(1+1)**	**(8)**

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Question	With reference to Figure 1, Extract A and Extract B, discuss the likely microeconomic effects of a housing market bubble in New Zealand. **Indicative content**
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** • Housing market bubble: the price of an asset is above the true value often the result of speculation • Explicit reference to Figure 1 e.g. prices increased 20.4% in Marlborough and 23.7% in Manawatu/Whanganui • An average house now costs NZ$925 000 • Houses are 40% overvalued- going from 8.6x to 10x average income • New Zealand PM many buyers are speculators- In 2020 approximately 15 000 buyers owned five or more properties Negative effects • 1% of New Zealand's population are homeless and the housing market bubble has pushed prices beyond their earnings. • Consumers may struggle to find it affordable to buy a home when they require 10x income to purchase • Rental prices may also rise affecting those that rent • Problem with a housing market bubble is that it may burst • People will realise that the houses are over-valued and there will be a correction when prices fall • Speculators may make profits by selling at the peak- but if some waited they may make losses • Home owners may pay a high price for the property but the true value of the property may be less

	• House builders will find that profits will fall if price fall after the bubble bursts • It may encourage illegal building which may be of a poor standard **NB Negative effects of a housing market bubble may be presented as KAA and positive effects as evaluation or vice versa**

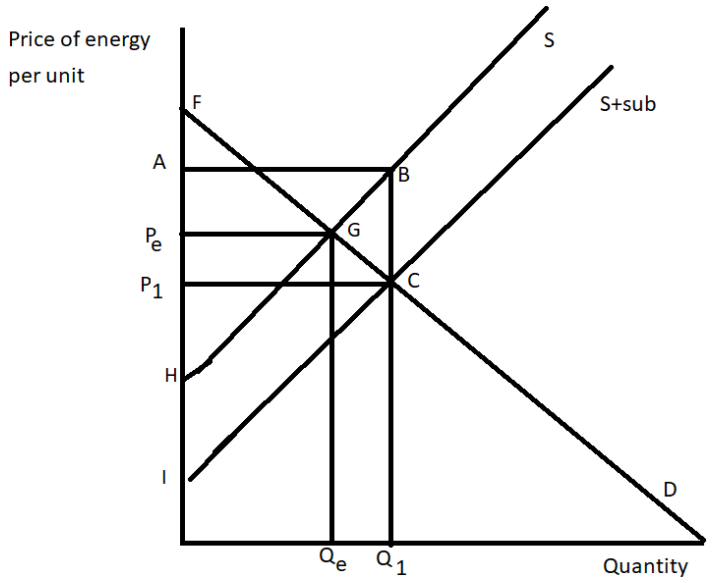
Level	Mark	Descriptor
	0	No rewardable material
Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has 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- a significant bubble with 40% overvalued/ 10x income • The price rises may reflect true value- higher real incomes, low interest rates and immigration/ limited supply • Significant impact with higher rate of homelessness than in other developed countries	

	• No guarantee the bubble will burst • Consumers may have stored/saved funds during global health crises and had more funds available helping to boost demand Positive effects • Existing homeowners will benefit from the increase in house prices • Builders/ construction companies may benefit from securing higher prices- increasing their revenue and profit • Creates an incentive for more houses to be built - 26% increase in supply in 2021 • Government may earn more tax revenue as people buy new properties • Construction workers may benefit from increased demand for construction workers and higher wages/ more secure employment • Those that own homes that they rent may also benefit from higher rental income

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.

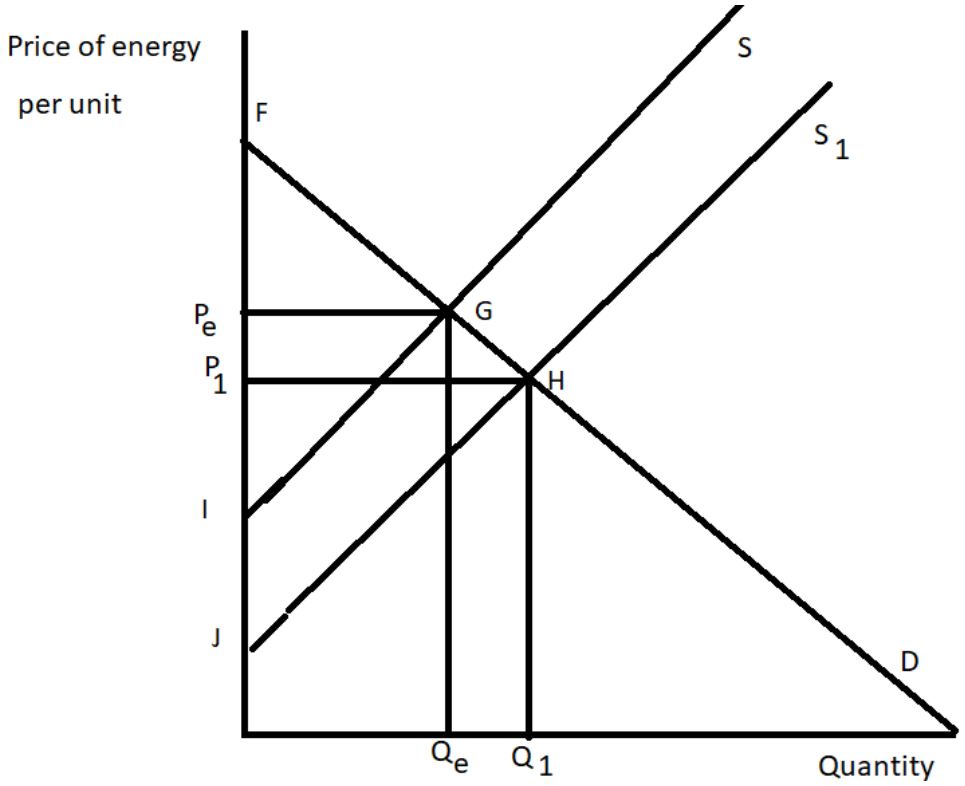
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Section D

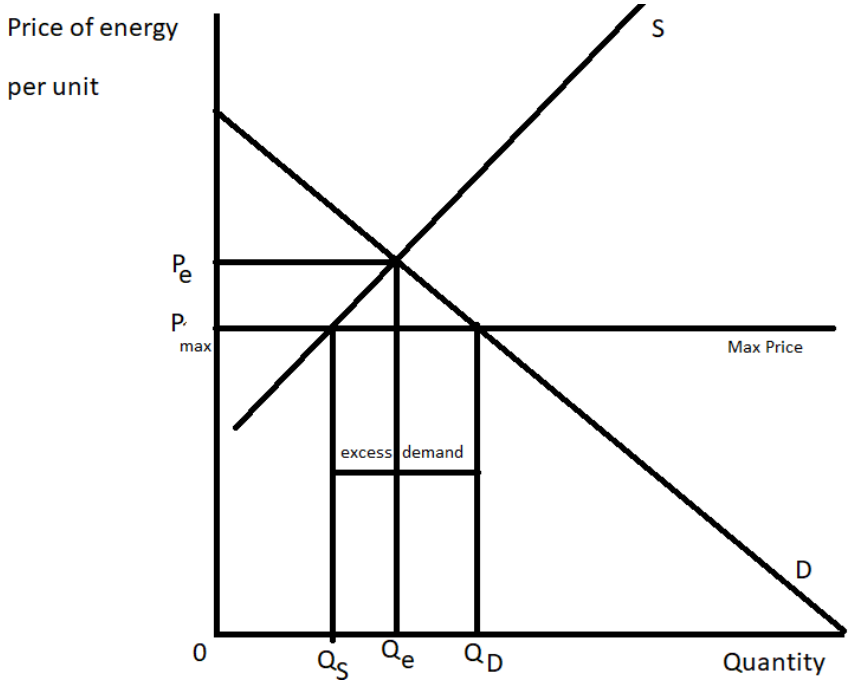
Question	Evaluate **two** possible measures that could be introduced to reduce the price that consumers pay for energy. Include at least one diagram in your answer. **Indicative content**
13	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Indicative 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** Possible measures include: • Subsidies to energy producers ○ German government ○ Lowers costs of production ○ Shifts supply to the right S to S+sub ○ Decreases price charged to consumers P_e to P1 ○ Increases quantity of energy available to consumers, Q_e to Q_1 ○ Consumer surplus will increase from FGP_e to FCP_1 ○ Producer surplus will increase ○ Cost of subsidy to the government $ABCP_1$ 

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- Decrease in indirect taxes- expenditure tax charged on consumption of energy
  - Spanish government
  - Lowers costs of production
  - Shifts supply to the right, S to S_1
  - Decreases price charged to consumers P_e to P_1
  - Increases quantity of energy available to consumers, Q_e to Q_1
  - Consumer surplus will increase from FGP_e to FHP_1
  - Producer surplus will increase GIP_e to HJP_1
  - Reduced tax revenue for the government



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	• Maximum prices- price ceiling above which firms cannot charge ○ French government ○ Set below the market equilibrium price, at Pmax ○ Causes extension of demand due to lower prices, Q_e to Q_D ○ Risk that firms may contract supply- Q_e to Q_s / exit the market due to reductions in revenue and profits ○ May be excess demand/shortage ○ Consumer surplus will increase only if supply is maintained ○ Producer surplus may fall at lower price  Accept other relevant measures that help lower price or support consumers e.g. regulation, state provision, provision of information **NB Reward the best two measures only** **NB Maximum Level 3 if only one measure** **NB Maximum Level 3 if no relevant diagram drawn**

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.

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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 • Subsidies- o The impact on price depends on the size of the subsidy o Firm in receipt to subsidy may become complacent o If a long-term problem then subsidies needed for a long time o Subsidy represents an opportunity cost- money could be spent elsewhere o Information failure- government does not know the ideal level for the subsidy o Government failure- government intervention leads to a net welfare loss o Depends on the significance of price elasticity of demand- likely to be inelastic limiting the impact on change in quantity/resulting in a significant reduction in price o PES likely to be inelastic with little change in quantity/resulting in a significant reduction in price o With both supply and demand being inelastic, the impact on price is significant • Decrease in indirect taxation o Depends on the size of the tax decrease o Although the price should decrease no guarantee this will be passed on to consumers	

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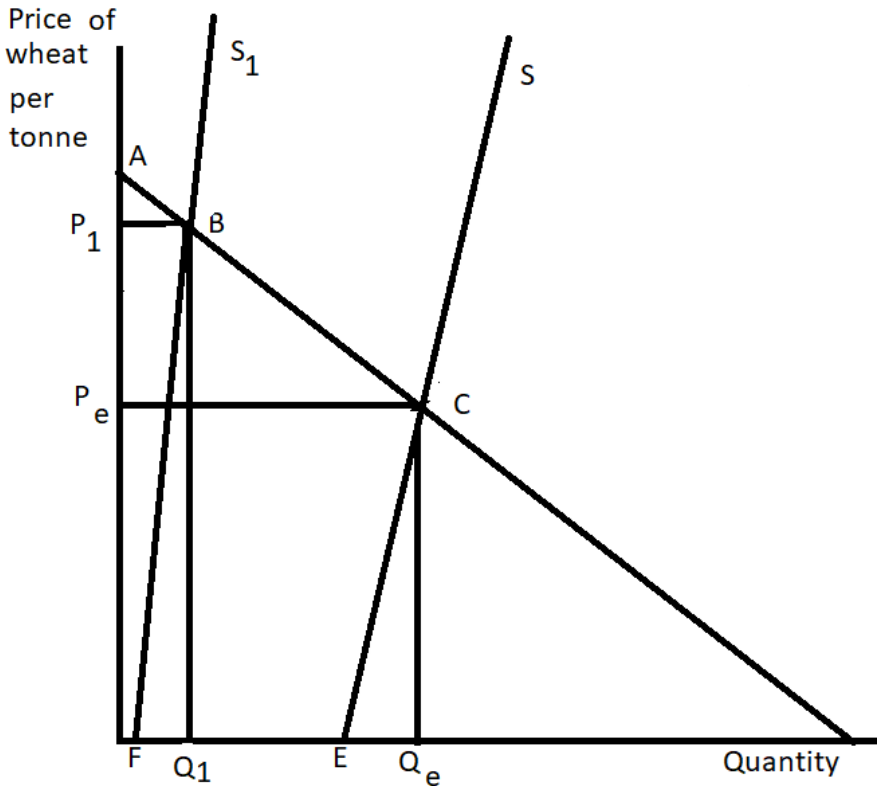
	○ If price increases are a long-time problem indirect tax will need to be available for an extended period ○ With higher market prices the government may earn more tax revenue despite lowering the tax rate ○ Information failure, therefore may not know the ideal rate of taxation ○ Government failure if it leads to net welfare loss ○ Depends on the significance of price elasticity of demand- likely to be inelastic limiting the impact on change in quantity ○ PES likely to be inelastic with little change in quantity ○ With both supply and demand being inelastic, the impact on price is significant • Maximum prices- ○ The maximum price will result in reduced profitability for suppliers resulting in some leaving the market causing supply issues in the future ○ Consumers may be worse off if they struggle to find a supplier ○ Government may face difficulty in setting the maximum price because of information gaps (government failure) ○ Unintended consequences may emerge (government failure) ○ Legislation likely to exist that prevents consumers losing supply ○ Value of PED and PES will impact the size of change in quantity • All measures lower prices and encourage consumption resulting in environmental damage • Candidates may consider the relative effectiveness of the measures offered Accept evaluation of other measures that reduce price or help consumers

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.

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Question	Evaluate the impact of the 400% increase in the cost of fertiliser on farmers and households. Include one diagram to show the impact on farmers in your answer. **Indicative content**
14	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **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** 400% increase in costs Farmers • Increased costs of production • Supply shifts left, S to S_1 • Demand contracts • Price increases, P_e to P_1 • Quantity decreases, Q_e to Q_1 • Decreased consumer surplus, ACP_e to ABP_1 • Decreased producer surplus • Some may exit the market as profits fall • If less fertiliser is used, productivity may fall leading to a fall in income for farmers

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Households

- 38% increase in global food price index
- Pay more in farm shops/for food in supermarkets
- Consumer surplus falls
- Food less affordable
- Demand for food very price inelastic meaning that consumers spend a higher proportion of their income on food
- Less income left to spend on other (non-food) goods and services
- Decrease demand for other goods e.g. electronics and entertainment

NB Maximum Level 3 if farmers or households omitted

NB Maximum Level 3 if no relevant diagram drawn

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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.
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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.

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	Evaluation (8 marks) – indicative content • Magnitude of the increase in fertiliser costs is significant so the impact on costs is large • The magnitude of the increase in the global food price index is much smaller than the increase in the cost of fertiliser/represents significant costs to households • Depends on the proportion of total production costs that are accounted for by fertiliser • The impact will depend on how long the prices remain high • Organic farmers who do not use fertiliser will benefit as their competitors producing non-organic good will suffer • Depends on how other costs change • Use of fertiliser may fall- reducing external costs of production- impact on wildlife • Farmers may absorb some of the increases in costs and not pass on price increases • Price elasticity of demand- if inelastic there will be only small changes in quantity • Impact greatest on low-income households as food costs will make up greater proportion of income • Government policy can alleviate the issue- accept specific examples

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.

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