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Examiners' Report
June 2015

IAL Economics WEC01 01

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Introduction

This is the fourth series that the IAL Economics 'Markets in Action' paper has been sat and there was a significant increase in numbers sitting the paper compared to the previous June series.

There was also an improvement in the standard of work produced. The performance of candidates on the supported multiple choice sections was greatly improved compared to all previous series. Overall, the paper was accessible for all candidates, all typically being able to achieve some marks on each question.

In the supported multiple choice section, candidates were usually able to pick up two or three marks for identifying the correct key with a definition and some explanation offered. Question 4 on asymmetric information, question 7 on negative externalities and question 8 on rational behaviour tended to cause some problems for candidates. On question 4 many were unable to identify that this was asymmetric information so struggled to access any marks. Others could identify and define asymmetric information and offer some development but often failed to achieve the final mark. Question 7, on negative externalities saw most candidates define negative externalities but too many just identified the area of welfare loss. As marks were already awarded for this, therefore no more marks could be awarded.

In post and present series, candidates have struggled on questions that explore rationality and this series was no exception. Some thought that we aimed to minimise utility rather than maximise it, and others struggled to explain why it was rational to switch energy providers.

The data response section for question 10 was more popular than question 9. The majority of candidates opted for question 10 and a fewer candidates opted for question 9. Candidate performance on both questions was broadly similar with those opting for question 9, doing only slightly better. There was an impressive improvement in the quality of questions worth 14 marks. Candidates performed better in their ability to demonstrate knowledge, application and analysis. Many more offered evaluative points. Answers tended to use the data response material in a much better way, with explicit references far more common. The quality of evaluation was also stronger with candidates using relevant evaluation points that were well developed. These were often developed from information provided in the data.

Diagrammatic analysis from the higher achieving candidates was good and it is the effective use of these diagrams which enabled many candidates to achieve higher scores. Accurate diagrams were far more common this series and candidates were better at labelling all axis and curves and explicitly referred to these in their response. Where candidates need to be mindful is in using the precise diagram. For example, in the question on minimum wage candidates needed to draw the impact of an increase in minimum wage but many produced a diagram to show when it was introduced. This was credited, but only in level 1.

Most candidates were able to complete the paper in the time available although some clearly began to run out of time as final responses were often briefer and occasionally unfinished. However this was less common than in previous exam series. It is highly recommended that candidates practise the unit 1 past papers under timed conditions to strengthen exam skills.

Supported Multiple Choice section

Most candidates found this method of testing accessible. Those candidates scoring at the top end of the mark range were able to use relevant diagrams to support their answers and the written responses were able to define and explain the correct key effectively. Almost all candidates, at every grade, accessed marks by defining the main concept(s) in questions for 1 or 2 marks. Those that went on to apply appropriate economic theory and analysis were awarded up to 2 marks. It is possible to achieve the full 3 explanation marks even when an incorrect option is selected. Candidates should take extra care in checking their answers to ensure they maximise the marks achieved. Some candidates gained marks by using the rejection technique. Up to 3 marks are available for successfully eliminating three incorrect options (provided that three separate reasons are offered).

To achieve rejection marks it requires candidates to explicitly state the option key being rejected and then to offer an appropriate explanation. Fewer candidates failed to identify the incorrect option key than in previous series. A significant number were using the rejection mark to achieve their last mark on these questions. The mark scheme offers guidance on how to reject incorrect options.

Note: It is perfectly acceptable to use a combination of techniques for securing the 3 explanation marks. For example, explaining the correct answer (1 mark), diagrammatic analysis (1 mark) and eliminating one or more incorrect answers (1 mark). It is still surprising on questions where a diagram is provided that many candidates take the time to redraw the diagram from scratch which replicates what is provided. I would encourage candidates to annotate the diagrams provided to save time.

Overall, the performance was very good with far more candidates accessing full marks and more than ever identifying the correct key. This was reflected in the improvements on this section of the paper compared to previous papers.

Data response questions

The data response questions have a substantial weighting for evaluation marks; 16 out of 48 marks. In previous series, the importance of offering evaluative comments had to be emphasised. However, this series candidates were much more likely to do so and to develop this response without greater emphasis. Question 10 (coffee market) was a more popular choice, with over half of all candidates selecting this question. Question 9 (clothing industry) saw candidates on average do better than question 10.

Question 1

This was a familiar question for many candidates and this meant most performed very well. Most candidates selected the correct answer and were able to define positive and normative statements.

The definition of positive statements linked to the idea of it being based on a scientific approach, being able to prove it and, by many candidates, a reference to it being value free. The most common definition of normative statements was that it contained a value judgement or was non-scientific or could not be proven. A common issue was candidates still referring to normative statements as opinions, which will not be credited.

Fewer candidates were able to explain why statement 1 was positive and 2 normative. Many said that statement 1 can be proved by testing whether the tax was introduced, which was the most common way to this mark. It was very uncommon for candidates to get the mark for explaining why statement 2 is normative. Most candidates merely stated that the word 'fair' made it normative. What was needed was to explain the fact that the word 'fair' made it a value judgement to gain the mark. This was not a question where candidates tended to try and reject the incorrect answers.

An excellent response that includes relevant definitions and explanations to achieve full marks.

SECTION A

Answer ALL questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 **Statement 1**
Thailand is to introduce a tourist tax of 500 baht to cover the increasing number of unpaid medical bills of visitors.

Statement 2
The plan to introduce a tourist tax to cover the unpaid medical bills of visitors to Thailand is fair.

(a) Which of the following best describes the two statements above?

(1)

A Both statements are normative

B Statement 1 is normative and statement 2 is positive

C Both statements are positive

D Statement 1 is positive and statement 2 is normative

Answer D

(b) Explanation

(3)

Positive statements are statements which can be proved true or false. They are statements of fact. Normative statements are value judgements which cannot be proved or disproved. Statement 1 is positive ~~can~~ since it can be tested whether Thailand is going to introduce a tourist tax of 500 baht. Statement 2 is normative because it contains the word fair.

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Examiner Comments

The response is awarded 2 marks for definitions; 1 mark for defining 'positive statement' as one that can be proven true or false and 1 mark for identifying that it is a value judgement. Alternatively this mark could have been gained for the next point made, that it cannot be proven.

The response explains that you can test whether Thailand does introduce the 500 baht tax, which gets an additional mark. The last point, in that it contains the word 'fair' alone, does not receive a mark as it does not explain why. Had the response gone on to say that the word 'fair' showed it was a value judgement, it have could been credited a mark. However, the response was awarded full marks.

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Examiner Tip

Remember, if you are referring to words such as 'fair' or 'should' which are used for normative statements, explain that they are value judgements in order to gain credit.

Another example of a response achieving full marks. This response successfully achieves the mark for showing that the reference to 'fair' makes it a value judgement and therefore a normative statement. This latter mark was very rarely achieved.

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C Both statements are positive

D Statement 1 is positive and statement 2 is normative

Answer D

(b) Explanation

(3)

Positive statement - scientific approach to economy, can be backed up by data, doesn't carry value judgement
Normative statement - carrys a value judgement non-scientif approach to economics

The second statement uses the word 'fair' ~~there~~ which is a value judgement

Statement 1 can be backed up by data.

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Examiner Comments

The response achieves 1 mark for defining a positive statement by referring to a scientific approach. It also achieved a mark for defining a normative statement which is a value judgement. It would also gain credit for reference to normative statement being a non-scientific approach. The response does then achieve the mark for identifying the word 'fair' is a value judgement to show it is normative.

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Examiner Tip

When saying that statement 1 can be backed up by data, explain what data can be used or what can be backed up.

Question 2

This question looked at production possibility frontiers and identified that the economy moves from having unemployed resources to fully employing resources.

Candidates had to select the PPF that showed this movement. Many were able to identify that the movement from X to Y on C was the correct movement. However, many were confused and identified A as the answer. This, of course, shows the desired increase in output but not a movement from unemployed to fully employed resources. It shows us where the economy in the first time period fully using resources on the PPF LL and in the second time period fully uses resources on PPF MM.

Nearly all candidates were able to correctly define PPF. Many candidates who had identified C as the movement were able to explain that at either point X there were unemployed resources or at point Y all resources were full employed. Rejection marks were often offered but more rarely achieved marks. In rejecting B many explained that this shows a reduction in output which is negative economic growth. Where candidates referred to a recession they were not credited as this suggests spare capacity which is not shown in this diagram. In rejecting D, many explained that this showed reduced output but this was not credited. More information is needed here in terms of explaining that the economy is moving from fully using resources to having unemployed resources. Very few achieved this rejection mark. Performance on the question was relatively strong.

This response achieved full marks. It is able to offer an accurate definition and explain what is happening at each point on the PPF.

(b) Explanation

(3)

PPF shows the maximum output of a combination of two goods which an economy is able to produce using all available resources in the most efficient way.

If an economy doesn't use all available resources, it is operating inside PPF curve. Diagram C ~~is~~ represents the position X inside the PPF curve, which means there are ~~a~~ unemployed resources. When it moves to the point Y, ~~it~~ ~~mean~~ it increases its output by using these unemployed resources.

So the correct answer is C.

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Examiner Comments

This response identified C as the correct answer and so received a mark. It offered an accurate definition of production possibility frontier, referring to maximum output of a combination of two goods using all available resources to gain a second mark. For appreciating that an economy does not use all resources inside PPF at point X, it received a third mark. For explaining that movement to Y shows they are now using unemployed resources achieves the final mark.

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Examiner Tip

It is useful to refer to specific points on the PPF, as this candidate has done. Reference in this case to X and Y makes it clear that the candidate understands what is happening, and where.

This response has the incorrect answer and therefore attempts to explain the wrong answer. It achieves marks for defintion and a rejection mark.

(b) Explanation

(3)

A production possibility frontier is a graph which shows all the goods and services which can be produced when all of ~~it~~ an economy's resources are fully and efficiently allocated. An increase in output ~~shows~~ will lead to economic growth. 'B' is wrong because movement of X to Y shows negative economic growth.

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Examiner Comments

No mark is achieved for offering the incorrect answer, A. This diagram shows economic growth from a point on the PPF line LL to a point on a new PPF MM which is further from the origin. At no point do we have unemployed resources. The response does gain credit for a definition of production possibility frontier. It then rejects an incorrect answer by explaining that B illustrates negative economic growth. The response is awarded 2 marks.

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Examiner Tip

Remember when rejecting answers to refer to the letter you are rejecting to achieve the mark.

Question 3

Candidates did less well in this questions compared to the previous two questions.

Candidates needed to look at the chart and be able to identify examples of renewable resources and non-renewable resources. They then needed to calculate the proportion used from renewable and non-renewable resources. Candidates who mis-identified the correct answer were not able to identify whether they were renewable or not. Candidates who identified the correct answer often went on to define renewable and non-renewable resources and calculated the proportion used for one or the other. Candidates commonly rejected D by showing that oil and other liquids were used more at 39%.

An excellent response achieving full marks. It is rewarded for the correct answer, definition, two calculations and rejection.

(b) Explanation

(3)

Renewable resources are resources which once used will not dimiuish or run out. Non renewable resources are resources which will eventually run out, wont be available for future generations if used now. C is correct due to the fact 50% of the energy used in Brazil was from renewables (7+3+1+39) and the other 50% of the energy used was non renewables (29+21). D is wrong since most energy was produced using oil and other liquids 39% compared to 29% which was produced using hydroelectricity.

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Examiner Comments

The response defines renewable resources as those that once used will not run out for 1 mark. The calculations for renewable resources was completed which are included in brackets for 1 mark. The calculations for non-renewable is also included for 1 mark. The response then gets credit for the rejection of D by saying that 39% comes from oil and other liquids compared to 29% for hydroelectricity.

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Examiner Tip

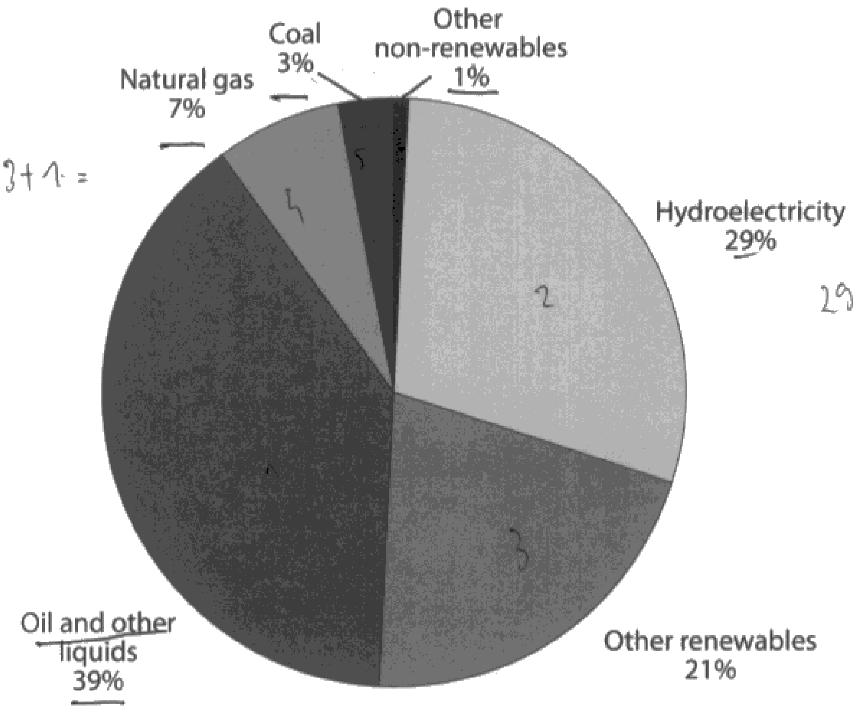
When calculating the total for renewable and non-renewable it is worth showing the calculation completed, as this candidate has done in brackets.

An excellent response that gains marks for defintions and calculations.

3 The chart below shows the different types of energy used in Brazil in 2008.

$39+7+3+1=$

$=50\%$



$29+21=50\%$

(Source: http://www.globalccsinstitute.com/location/brazil)

(a) It can be deduced from the data that

(1)

A most of the energy used was from renewable resources ✗

B most of the energy used was from non-renewable resources ✗

C an equal proportion of renewable and non-renewable resources was used ✓

D more energy was produced using hydroelectricity than any other resource ✗

Answer $\boxed{C}$

(b) Explanation

(3)

The pie-chart illustrates the usage of different types of energy in Brazil in 2009. It presents us with two types of resources: renewable and non-renewable. As ~~the~~ sum of usage of non-renewables, such as Oil & other Liquids, Natural Gas, Coal and other renewables (39% + 7% + 3% + 1% = 50%) are equal to the usage of renewables (hydro electricity + other renewables 29% + 21% = 50%), we can deduce that statement C is correct.

A non-renewable resource is one that is limited in quantity and does not replenish over time (will ultimately run out) such as oil, or gas, whereas a renewable resource is either unlimited or replenishes at a quicker rate than it ~~they~~ is used, such as wind or biomass.

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Examiner Comments

The calculations relating to the diagram are completed and repeated in the explanation and are awarded one mark for renewable and non-renewable. The responses defines non-renewable as resources that do not replenish and renewable as resources that replenish, both achieving one mark each.

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Examiner Tip

The first sentence is superfluous. You do not need to repeat from the question what the data shows as this is not a productive use of time.

Question 4

The candidates on average performed less well on this question. Fewer achieved full marks on this question than any other supported multiple choice question. Many selected the wrong answer and therefore they explained why A, B or C might be correct. Those that selected the correct answer struggled to achieve full marks. Many could define asymmetric information and explain that the dentist had superior knowledge. But few could access the final mark. Many candidates attempted rejection marks. However, candidates performed better when they explained why dentistry was not a public good for D, why they might not feel valued if unnecessary treatments occurred for A and why third parties would not be affected by a treatment for B.

An excellent response that gets the correct answer, defines asymmetric information and explains the inferior information of the child and how the dentist uses their superior knowledge to profit. Key strength here is the link to the case in the question.

(b) Explanation

(3)

Asymetric information is when there is a differences between the Consumer and the producer in the level of knowledge about the product's value, importance, Benfits, costs and many other things. Here the dentist knows more about the problems of the Children than the children themselves know. the dentist therefore uses this to give unnessecary treatments to make profit.

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Examiner Comments

The response defines asymmetric information explaining that it is the difference between consumers and producers knowledge. It explains that the dentist knows more than the child for 1 mark, and that they use superior knowledge to make profit for the final mark.

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Examiner Tip

This shows good application referring to the children and dentists in the response.

The candidate is able to demonstarte good economic knowledge and only misses out the rejection mark, as they needed to explain why this is not a public good.

(b) Explanation

(3)

Asymmetric information is when a certain party has more information about something than others.

Answer A is incorrect because unnecessary treatment would not make consumers feel valued. This would be exploiting the client.

Answer C is incorrect because the text does not state that the dental care is a public good or a private good.

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Examiner Comments

The response defines asymmetric information; where one party knows more information about something than others. The rejection of A is awarded as it identifies that they will not feel valued but exploited. The rejection of C is not awarded as it needs to explain why it is not a public good.

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Examiner Tip

It is useful to explain why the correct answer is correct. No explanation is offered in this example on what the asymmetric information actually is.

Question 5

Overall, the responses for this question were pleasing. The question referred to a town in New Zealand which was paying a subsidy to encourage people to relocate to the town. Candidates were asked to decide on the impact of this and to identify whether this improves geographical mobility of labour.

The majority of candidates defined geographical mobility successfully. However, too many defined subsidy by referring to the grant for producers which, in this case, was not correct as the subsidy was paid to individuals to relocate. Many then went on to link how this helped lower the costs of moving or helped cover housing and travel costs. Many rejected B showing that the subsidy would see the supply of labour rise.

This response offers a good explanation focussing on why A is the correct answer. It is awarded full marks.

(b) Explanation

(3)

Geographical mobility of labour means that labour can easy move frome one area to ano-there, where it is more needed. ~~Relocati~~ Subsidy- is a governmental grant to reduce prices or increase productivity. So with the help of relocation subsidies it would be more cheap to move to another areas thus ~~mo~~ geographical mobility of labour would improve

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Examiner Comments

This response explains that geographical mobility means people can move easily from one area to another. It then defines a subsidy referring to it as a government grant. The reference to making it cheaper to move is also credited.

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Examiner Tip

Be careful - many candidates confused the mobility and immobility of labour.

This is a good response to the question. As well as identifying the correct answer, it offers two defintions and a rejection to be awarded full marks.

(b) Explanation

(3)

Geographic mobility is the ability of workers to move from one area to another for occupational purposes. A subsidy is a monetary grant given by the government to people in New zealand so they can afford cheaper houses. These subsidies will make houses more affordable and make people move to Otorohanga for work hence improving geographical mobility of labour.

Option B is incorrect because relocation subsidies will bring in people to the area and increase supply of labour not decrease.

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Examiner Comments

This response defines geographical mobility accurately and is followed up with a definition of subsidy. It then links this to how it makes houses affordable for an additional mark. The rejection of B is also awarded as it explains that supply of labour would increase with the subsidy.

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Examiner Tip

It was common with this question for students to use a definition clearly learnt in class. They referred to the subsidy being paid to suppliers but, in this case, this is a subsidy paid to individuals for relocation. Be careful your definition fits the question.

Question 6

The question required candidates to pick out the example with a positive cross price elasticity of demand. The question was clearly familiar and there were more candidates achieving full marks on this question than any other question on the paper.

There were two key approaches attempted. Firstly candidates would define cross price elasticity of demand and then identify that a positive cross price elasticity makes products substitutes. They then would explain why rail and bus travel are substitutes. The other approach was to replace the final point with an explanation as to why answer B was wrong by explaining that consoles and games were in fact complements with a negative cross price elasticity of demand. Either approach was successful.

This is the most common approach to this question which explains clearly why bus and rail travel are substitutes to achieve full marks.

6 (a) For which one of the following pairs of goods is the cross price elasticity of demand likely to be positive?

(1)

A Milk and cheese

B Computer games consoles and computer games

C Rail travel and bus travel

D Rice and aeroplanes

Answer $\boxed{C}$

(b) Explanation

(3)

Cross price elasticity of demand is the responsiveness of a demand for one good to a change in price for another good.

Cross price elasticity of demand is always positive between substitutes. In case „C" there are given two substitutes. If the ~~demand~~ price for rail travel falls, then the demand for bus travel falls.

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Examiner Comments

The correct answer has been selected by this candidate. The second mark is achieved for defining cross price elasticity of demand. Identifying that a positive cross price elasticity of demand makes two goods substitutes achieves a third mark. The final mark is awarded for explaining that as the price of rail fares fall demand for bus travel will fall.

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Examiner Tip

In this response, only the written definition is offered. Many candidates are offering both the defintion and formula and this will only ever achieve one mark for either the definition or formula.

Full marks achieved.

6 (a) For which one of the following pairs of goods is the cross price elasticity of demand likely to be positive?

(1)

A Milk and cheese

B Computer games consoles and computer games

C Rail travel and bus travel

D Rice and aeroplanes

Answer C

(b) Explanation

(3)

XED, is the responsiveness of demand of one good, ~~good "A" to a to a~~ change in price in the price of another good. Making "C" correct as rail travel and bus travel are substitute goods, and ~~st~~ substitute goods have a positive XED. As when the price of one good rises, the demand for the other good will also rise. Making "B" incorrect as computer games and consoles are complementary goods, and complementary goods have a ~~p~~ negetive XED.

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Examiner Comments

Correct answer for 1 mark. The response defines cross price elasticity of demand for 1 mark. It also identifies substitutes as having a positive cross price elasticity of demand for 1 mark. 1 mark is also awarded for understanding that when the price of one good rises, demand for the other rises. The response rejected B as complementary goods with a negative cross price elasticity of demand for 1 mark. The response achieves the maximum of 4 marks.

Question 7

Candidates performed less well on this question than most other supported multiple choice questions, but there was still an improvement on this question on external costs compared to the performance in previous sessions. Most were able to define external costs and many then attempted to show the levels of the social optimum and market equilibrium to show the over production. Many candidates rejected A or D. In rejecting A, they would show how the market equilibrium was greater than the social optimum. In rejecting D they would explain how you need to tax and not subsidise the production of chemicals.

The candaidate achieves more marks than those available on the question. Explaining both why C is correct and why A is incorrect.

(b) Explanation

(3)

An external cost is a negative third party effect due to production or consumption of good that is external to exchange. External cost = Social cost − private cost

At point Z, MSC and MSB meet and it will form socially optimum level of output.

At point X, MPC and MPB meet and this is free market level of output. Therefore the triangle XYZ will form net welfare loss to society.

This exists when social costs is greater than external costs

~~Social~~ Option A is incorrect as OA is socially optimum level of output and OB is free market level and B > A hence free market level is greater than socially optimum level.

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Examiner Comments

The correct answer achieves the first mark. The response then receives a mark for defining external costs, 1 mark for identifying point Z as the social optimum, 1 mark for point X as the market equilibrium. The rejection of A also achieves a mark as it explains that the market equilibrium is greater than the social optimum.

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Examiner Tip

Remember to refer to the points on the diagram. For example this candidate refers to points Z, X, B and A which makes it easier to award marks.

This candidate uses the rejection approach to achieve their final mark.

(b) Explanation

(3)

~~The~~ ~~welfare~~ Welfare ~~force~~ loss is the ~~benefit loss from~~ external cost to the ~~third~~ third party who ~~do~~ does not involve in consumption ~~of~~ or production.

XYZ shows the chemical waste produced by the factory which indicates an over-production of chemical.

D is incorrect because the government show charge indirect tax ~~to~~ ~~give out the permits~~ to reduce the production of chemical so as to reach the social optimum quantity.

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1 mark is awarded for selecting the correct answer, 1 mark for defining external costs, 1 mark for identifying the over production and then the final mark for the rejection of D referring to how an indirect tax should be charged to reduce the welfare loss.

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Annotation of the diagram is rewarded. Many candidates marked on the diagram the social optimum, market equilibrium and over production.

Question 8

This question clearly posed the biggest challenge to candidates. In previous series we had tested candidates understanding of when students might not act in a rational way, for example, through habitual behaviour and inertia.

In this case, we were testing that candidates understood that customers were in fact maximising utility and therefore acting in a rational way in response to the rise in price from SSE. Worryingly, a significant number of candidates identified that customers wanted to minimise utility. Even when candidates did not get the correct key they were often able to identify that had they been poor at computation they would not have moved their provider, and had they been habitual they would have stayed with SSE. So it seems that candidates understand the section in the specification linked to why students do not act rationally but more is needed on what it means for customers to act rationally.

This is an example of a response that successfully uses rejection to help achieve full marks.

(b) Explanation

(3)

A ration consumer is a consumer who seeks maximum Utility. The utility will be higher to these consumers as the will move from an experive form of electricity to a cheaper one. ~~therefore~~ The consumers are saving money for the same service which shows that The utility is rising. So ~~they~~ utility is not ~~are~~ being minimised and D is a wrong answer. Also C is wrong as the consumers did not decide to stick to their Old energy source, they infact decided to switch. So they are not behaving habitually which is not changing existing methods. Finally, Answer A is wrong because if the consumers were bad at computation, they wouldn't have noticed are rise in prices and wouldn't have switched.

(Total for Question 8 = 4 marks)

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The first mark is achieved by identifying the correct answer. The response then explains that rational consumers maximise utility. It is then credited for the rejection of option C, in that habitual consumers will not change from existing methods and the rejection of option A, in that customers who are bad at computation will not switch.

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Examiner Tip

Use the space provided and try to avoid writing outside the space. If you do need more space use an additional sheet and explicitly to refer to this on your response.

The candidate clearly understands this section of the specification and explains their points well to achieve full marks.

(b) Explanation

(3)

~~In ee~~ Economic theories are made assuming that consumers behave rationally that is they will try to maximize their total utility by wanting to pay ~~no~~ less for more consumption of goods as marginal utility to ~~consumptio~~ consumers fall with each extra unit of consumption.

When consumers noticed a price rise of 8.2% they switched to cheaper providers of gas & electricity in order to avoid the extra expense.

Option A is incorrect because the 50,000 households were good at computation skills and they ~~coo~~ worked out ~~the~~ which was the cheaper providers for gas and electricity.

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Examiner Comments

The candidate selects the correct answer. The response then explains what rational behaviour is for the next mark. It explains that customers will switch to avoid extra expense for the next mark and then explains that A is incorrect as 50,000 were clearly good at computation and switched.

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Examiner Tip

Take extra care revising this topic. It has once again been a challenge topic area for candidates.

Question 9 (a)

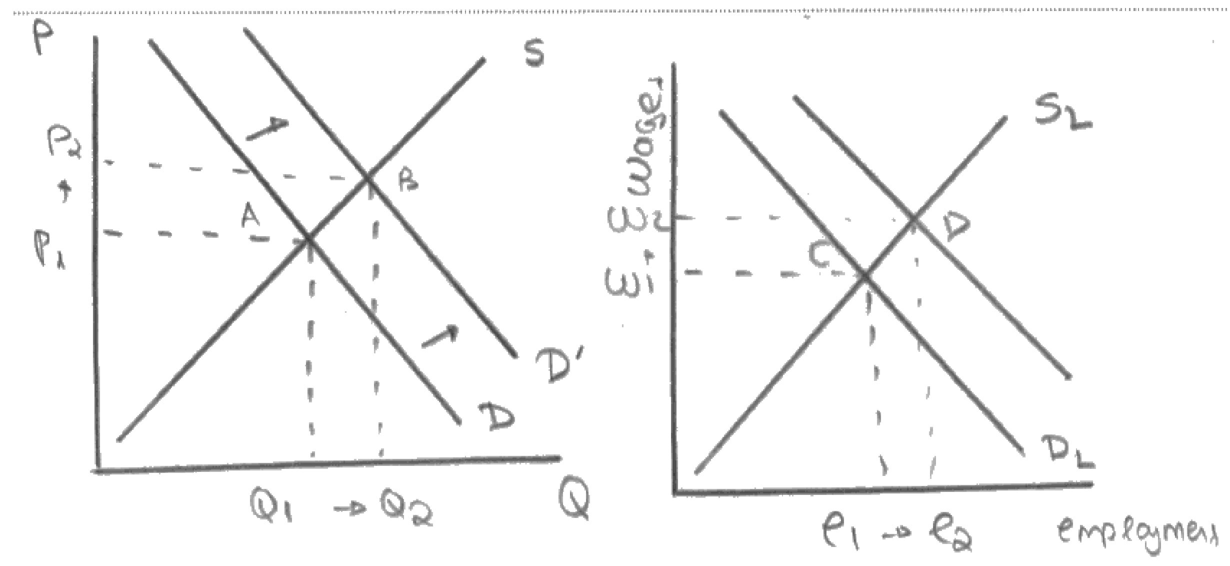
This question was quite challenging for candidates. It required candidates to explain the impact on wages on the rise in clothing exports. Many started their answers by stating that exports had risen 13%, which is information given in the question, so could not be rewarded. It was pleasing to note the number of candidates who had identified that this was derived demand. Most candidates correctly drew the diagram showing demand rising and wages rising. A common error was to also draw the supply of labour falling due to the deaths caused by the fires but the question specifically asks them to look at the impact of rising exports, so this was not credited. A significant number of candidates also performed poorly as they drew the diagram for the market for clothing rather than its labour market. These diagrams showed prices rising and quantity rising rather than wages and employment rising.

An excellent response that achieves full marks. The response provides a good explanation and, by drawing the diagram for the clothing and labour market, shows a clear understanding of derived demand.

(a) Explain the likely impact on the wage rate of workers in the Bangladeshi clothing industry following the "13% growth in Bangladeshi clothing exports" (Extract 1, line 3). Use a supply and demand diagram in your answer.

(6)

As mentioned in extract one (line 3) there has been a 13% growth in Bangladeshi clothing exports which are 80% of its total exports. This rise will lead to higher wages as more quantity is demanded because demand for labour is derived. This means that changes according to the quantity demanded of the good produced. A growth in export, shift in demand rightwards, causing a rise in quantity from Q1 to Q2. Therefore, more workers are demanded and demand for labour will shift rightwards as well. Therefore wages will rise from W1 to W2



ResultsPlus
Examiner Comments

The response identifies that the impact on wages will be higher. This is explicitly referred to in the text and in an arrow on the diagram. The response identifies that the demand for labour is derived from the demand for clothing. It also refers to the rise in employment on the diagram for an additional mark. It shows a shift to the right of the demand curve for 1 mark, original equilibrium wage and quantity gain 1 mark and the new equilibrium wage and quantity for the final mark.

ResultsPlus
Examiner Tip

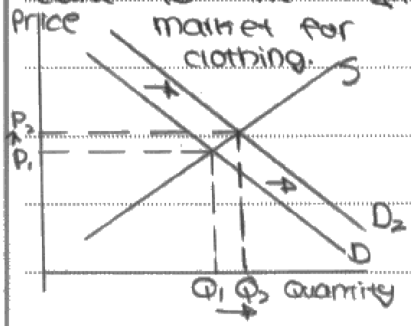
Be careful on the diagram – this example shows that the new demand curve is not labelled and only received credit for this due to the written explanation referring to it as a rightward shift in demand for labour.

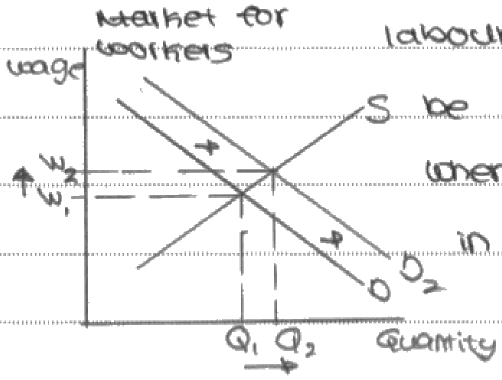
This response is very good and the only aspect it does not make clear enough is whether it is employment or quantity of labour that has risen.

(a) Explain the likely impact on the wage rate of workers in the Bangladeshi clothing industry following the "13% growth in Bangladeshi clothing exports" (Extract 1, line 3). Use a supply and demand diagram in your answer.

(6)

Due to a 13% growth in Bangladeshi clothing exports, this may mean that the demand for Bangladeshi's clothes are on the rise thus shifting the demand curve to the right. As a result, the derieved demand for





labour which can be defined as when the change in demand for one good causes a change in demand for another may rise, causing the demand for clothing workers to rise and thus increasing the wage rate for W_1 to W_2. An increase in demand for workers may be due to the reason that companies wish to produce more and increase output.

ResultsPlus
Examiner Comments

This response was credited for identifying derived demand and then how this will lead to increasing wages. It shows the shift to the right of the demand curve. It shows the original equilibrium wage and quantity and the new equilibrium wage and quantity. However, it does not achieve the last mark as it does not explain that employment or quantity of labour rises, as it just refer to quantity.

ResultsPlus
Examiner Tip

Be clear in labour market diagrams that it is the quantity of labour or employment.

Question 9 (b)

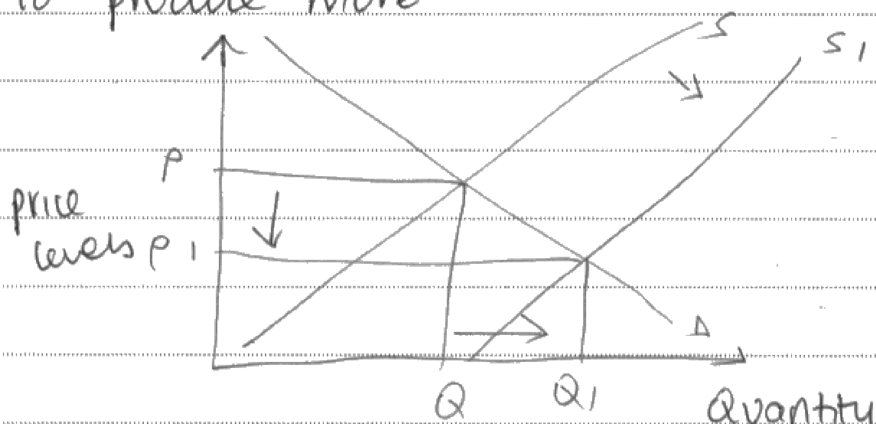
The average response on this 14 mark question was much better than in previous series. The level of knowledge, application and analysis was better as more candidates were able to develop their responses to a high level. Evaluation was also used referring to the data provided and development was better. The question required candidates to look at the impact of increased regulations on the clothing industry. Most looked at the case for this regulation looking at the benefits of it and then offered the disadvantages for evaluation. There was some very good work on how it would ensure the safety of workers and how this will benefit motivation, efficiency and productivity. However, this was often countered by arguments about the costs. There was some very effective work looking at the issues the government will have regulating it.

This is a very good response achieving Level 3 for knowledge, application and analysis (KAA), and top of Level 2 for evaluation.

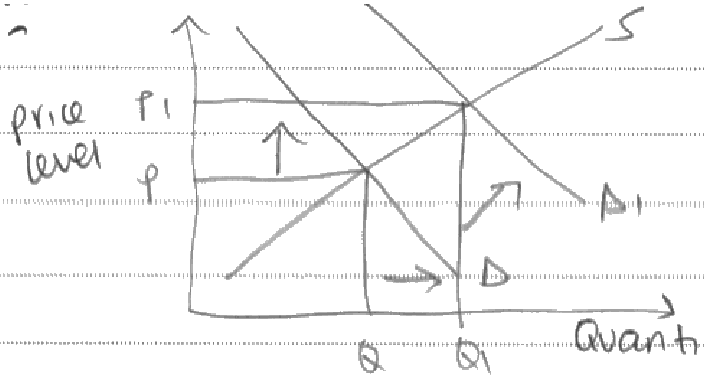
(b) With reference to Extract 1 and your own knowledge, evaluate the possible economic effects of the increased legal regulations on the Bangladeshi clothing industry.

(14)

Increased legal regulations "to improve workers' safety" is likely to increase productivity and efficiency in the industry. This is because workers are assured of the safety in the work they are doing, hence they will be highly motivated to produce more.

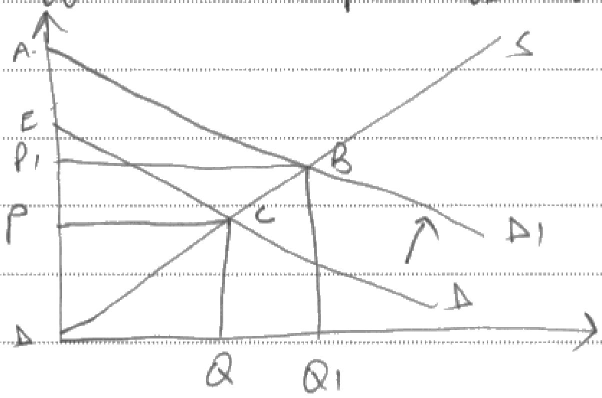


Moreover, "retailers [are] demanding stricter safety standards." This means that if retailers see that the industry is actually taking the welfare and safety of workers into consideration, demand for the clothing as also likely to rise from retailers.



Due to the rising demand, profits for the industry rises.

Furthermore, increased legal regulations means less accidents and deaths occuring in the industry. This means that the growth of the industry is likely to rise above 13% as there will be no closure or breaks in the production and this raises profit margins for firms even further. The rise in demand ~~an~~ increases both producer and consumer surplus as well.



Original ~~producer~~ consumer surplus was ECP and it rose to ABP1.

Original producer surplus was PCD and it rose to P1BD.

However, the rise in legal regulations means that "some factories are struggling with higher costs caused by these additional regulations" hence to cut costs, workers are laid off causing unemployment in the industry. Moreover, "there is some doubt about the government's ability to regulate the clothing

industry which employs "over 4 million people" and this suggests that not all firms in the clothing industry will be affected by the rise in legal regulations.
Also, it depends on the magnitude of the rise in regulations. It will only have a significant impact on the industries if the rise is high.

ResultsPlus
Examiner Comments

For knowledge, application and analysis (KAA), the response makes reference to how the regulation will improve worker safety which alone would be Level 1. It does however move this to Level 2 by linking to improved productivity and efficiency. The development to link to the assurance of safety leading to highly motivated staff moves the response to Level 3.

The next point identifies from the data that retailers are demanding stricter standards, and this achieves Level 1 but develops this to Level 2 by referring to the rise in demand for clothing this causes.

The reference to less accidents and deaths is credited at Level 1 but this is developed to Level 2 due to no closures or breaks in production. However, there is an unclear link to the rise in demand and surpluses which is not credited. Overall for KAA the response achieves Level 3 as it demonstrates clear understanding of the effect of the regulation in the context of the Bangladeshi clothing market.

The response links clearly to the context with development. It is awarded 7/8 marks for KAA.

The quality of the first point developed helps access the top level, and the latter knowledge points mean it finishes at the bottom of level 3.

For evaluation, the response identifies higher costs for a Level 1 credit and develops this to look at how workers will be laid off for Level 2. The doubt over the ability to regulate is Level 1 and this is developed to look at how not all will be affected for Level 2. The magnitude argument is Level 1.

Overall for evaluation, the response is credited for evaluative comments supported by relevant reasoning and application to context. It is awarded 4/6 marks for evaluation. The first two evaluative points that are developed allowing the candidate to achieve the top of level 2.

Total: 7 (KAA) + 4 (EV) = 11/14.

ResultsPlus
Examiner Tip

These questions are level-based so when making points it is important that you develop these in detail in order to be able to access Level 3.

(b) With reference to Extract 1 and your own knowledge, evaluate the possible economic effects of the increased legal regulations on the Bangladeshi clothing industry.

(14)

Regulations are imposed by government to ~~make sure that we~~ ensure worker safety and to protect trade union rights. The increase in legal regulations will increase cost of clothing firms. They might have to slow down production process, or increase safety standardars in the workplace. This cost will increase the price of clothes, and reduce quantity of clothes exported.

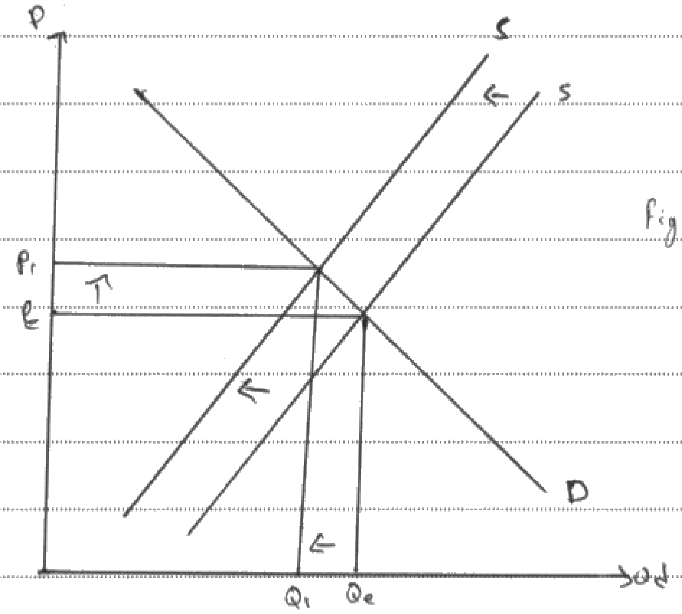


fig: clothes industry

There will be a decrease in consumer surplus as westerns buyers will have to buy clothes at higher prices.

The increase in regulations by increasing trade union power ~~will~~ and participation of labors in trade unions will increase the power of labors. They might demand higher wages and ~~do~~ better working conditions and refuse to work if not provided. This might cause the efficiency and productivity of labors to decrease which is bad for the economy.

However, it is quite difficult to regulate the clothing industry ~~as~~ due to the immense size of the industry which ~~employes~~ employs 4 million people. It will increase opportunity costs of government and reduce expenditure in other sectors.

Another problem is that ~~is~~ it is tough for government to regulate the industry ~~due~~ as a very large regulating body is required.

Furthermore, factory owners might still not increase safety standards according to regulations as there is evidence that not a single owner was charged with a crime due to all the accidents from 1990 to 2012.

ResultsPlus
Examiner Comments

The response refers to ensuring worker safety by protecting trade union rights for Level 1. It also refers to increased cost of production and how this might slowdown production, for Level 2. The link to how this will increase the price of clothing is also credited for Level 2. An accurate diagram is drawn showing the shift and equilibrium with the supporting explanation referring to higher prices and reduced quantity of exports for Level 3.

KAA achieves Level 2 overall. The first page of this response achieves L3 but to achieve L3 overall it would require a stronger second well developed point. Awarded 6/8 marks.

For evaluation, the response refers to how it is difficult to regulate and links this to there being 4 million employed for Level 2. It argues that there will not be increased safety standards as no one was ever charged between 1990 and 2012 for Level 2. The evaluation has two evaluative points developed using context, which achieves 4/6 marks.

Total: 6 (KAA) + 4 (EV) = 10/14 marks.

Question 9 (c)

More than a third of candidates achieved full marks. Candidates needed to explain whether the price elasticity of demand was elastic or inelastic. Nearly all started by defining price elasticity of demand. Many could identify that demand was inelastic. The better responses identified that despite the minimum wage western retailers would continue to buy showing that quantity demand responded less than the change in price.

The candidate has used the data to identify that demand is likely to be price inelastic and defined price elasticity of demand. The response has missed one mark as it could have made reference to the fact that the response of quantity is less than the change in price.

(c) With reference to Extract 2, explain whether western retailers' demand for clothing made in Bangladesh is likely to be price elastic or price inelastic.

(4)

Price elasticity of demand measures the responsiveness of quantity demanded due to a change in price. The demand is likely to be price inelastic because the western retailers believe that the minimum wage should increase so in order to help them out, they don't mind the increased prices. Thus making in price inelastic.

ResultsPlus

Examiner Comments

The response achieves 1 mark for the definition of price elasticity of demand. It gains one more mark for identifying that the demand is price inelastic and that the minimum wage increase means prices rise but western retailers do not mind, (1 mark). Total 3/4 marks.

ResultsPlus

Examiner Tip

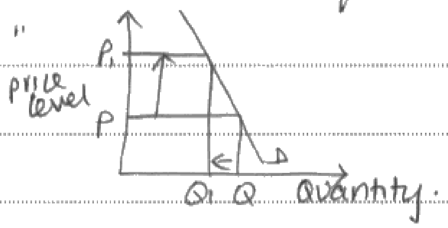
A definition of price inelastic would have helped here.

The candidate has achieved full marks. The response has defined and shown formula, (and given an example from context), identified the elasticity and defined this, as well as drawing the correct diagram.

(c) With reference to Extract 2, explain whether western retailers' demand for clothing made in Bangladesh is likely to be price elastic or price inelastic.

(4)

Price elasticity of demand is the responsiveness of a change in quantity demanded due to changes in price. $PED = \frac{\% \Delta QD}{\% \Delta P}$. The PED for Bangladeshi clothing is price inelastic i.e a ~~small~~ big change in price, increase of 30% would bring a less than proportionate change in demand as "retailers would continue to purchase similar quantities of clothes, even at the higher price."



ResultsPlus

Examiner Comments

The response is awarded 1 mark for defining Price Elasticity of Demand. It also offers the formula but only gains credit for the formula or definition. 1 mark is awarded for identifying that it will be inelastic. 1 mark is awarded for the fact there is a less than proportionate change in quantity compared to price. 1 mark is awarded for retailers continue to buy. 1 mark is awarded for drawing a diagram to show inelastic demand. The response achieves the maximum of 4 marks.

ResultsPlus

Examiner Tip

Good detail shown on the inelastic diagram that the change in price is larger than the change in quantity.

Question 9 (d)

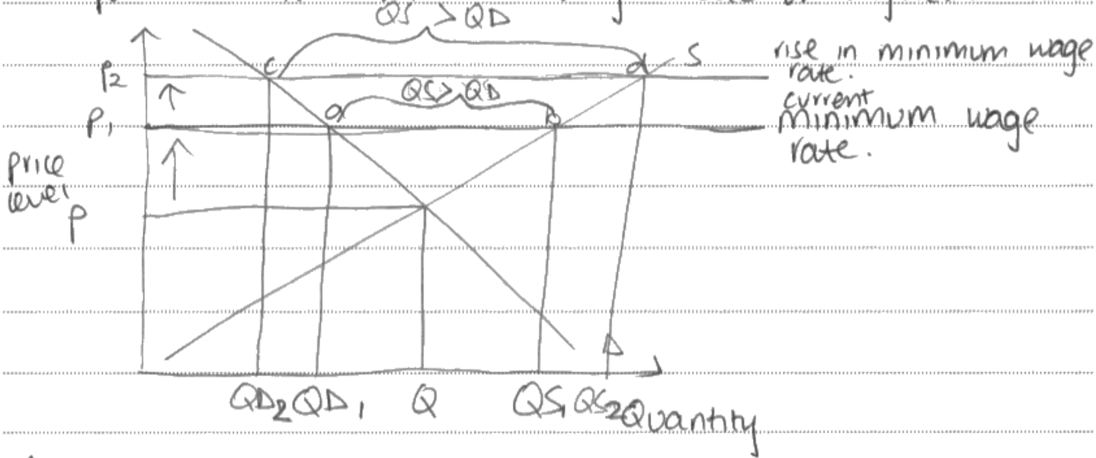
This question required candidates to evaluate the possible economic effects of an increase in minimum wage. Most candidates considered the benefits and problems of increasing the minimum wage. This enabled them to access both KAA and evaluation marks. The data was well used and it was the development of the data which enabled candidates to achieve a Level 3 credit.

The evaluation offered in this response is excellent and well-developed in the context of the question. The KAA is less detailed but still accesses the top of Level 2.

(d) With reference to Extract 2 and your own knowledge, evaluate the possible economic effects of the proposed increase in the minimum wage. Use an appropriate diagram in your answer.

(14)

A minimum wage is a rate set by the government below which firms cannot pay workers. Workers are to be paid at the minimum wage rate or higher.



An increase in the national minimum wage means that there is higher wages for workers. This increases their standard of living as they now have higher disposable incomes. They will now be able to afford "their basic living costs" and income inequalities in Bangladesh is likely to fall.

Moreover, the government gains revenue through direct tax as they can now tax the incomes, which are rising, of these workers.

Furthermore, the rise in national minimum wage would reduce vandalism and other social evils such as crime because people are now able to afford more.

~~Mor~~ In addition, the rising cost to the firm of the increase in national minimum wage can be

passed on to retailers as "they would continue to purchase even at a higher price" as clothing is inelastic.
However, it depends on the magnitude of the rise in minimum wage. It increased between 50% and 80%, hence having a significant impact on workers.
Moreover, national minimum wage rise is a form of government failure because firms will lay off workers to reduce their cost of production hence causing a rise in unemployment.
Furthermore wages only went up to 4500 taka per month but according to a recent survey, workers need 6450 taka a month just to cover for basic living costs hence the rise in wage is insignificant to workers.

ResultsPlus
Examiner Comments

The definition of minimum wage accesses Level 1. The response gives an accurate diagram showing increased minimum wage with excess supply rising, which achieves Level 2. Had it offered further explanation that workers employed up to QD2 it would have accessed Level 3.

Explaining that the standard of living rises as higher wages is Level 2, and that people will be able to meet their basic living costs and inequality would fall is also Level 2. Reference to the reduction in crime is undeveloped and achieves Level 1.

KAA shows understanding of a range of issues related to minimum wage. The context has been utilised. The response is awarded 6/8 marks.

For evaluation, the response refers to the ability to pass on increase in minimum wage as demand inelastic for Level 3. The magnitude argument taking about 50-80% being significant is Level 2.

Having to lay off workers to reduce the cost of production is identified as government failure for Level 3. The rise in wage being insignificant uses the data and achieves Level 3. For evaluation the response achieves Level 3 overall as there are 3 well-developed points. The response is awarded 6/6 marks.

Total: 6 (KAA) + 6 (EV) = 12/14 marks.

ResultsPlus
Examiner Tip

It is a good idea to show you are using the data by putting in speech marks or inverted commas. It makes it clear you have used the context. Remember to develop what this context shows you.

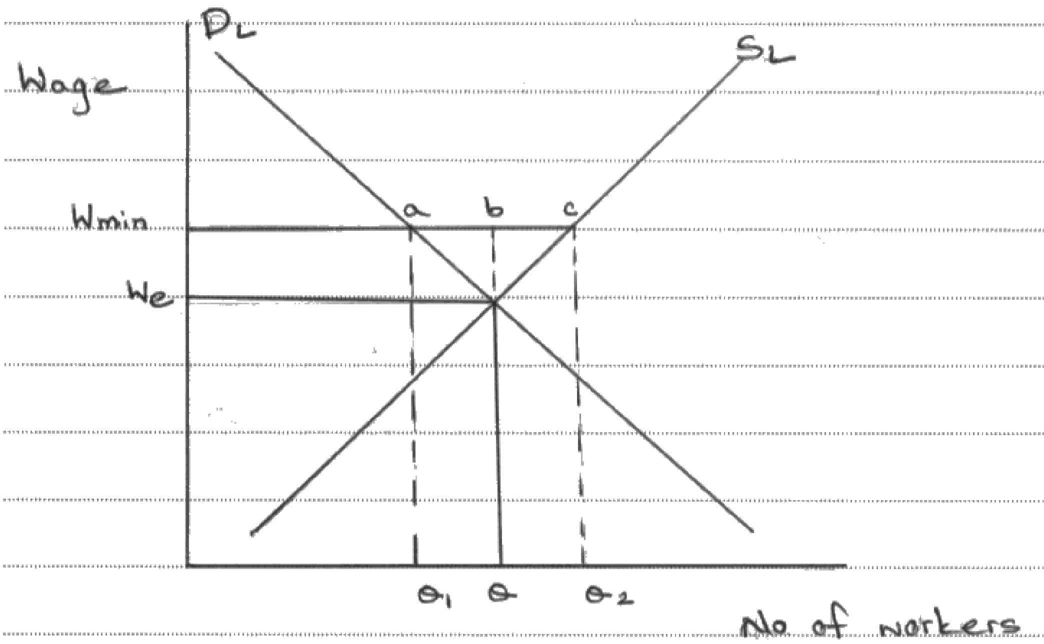
This is a solid Level 2 response. The biggest weakness here is the use of the wrong diagram, which was a common mistake with this question. The economic arguments are offered with some development.

(d) With reference to Extract 2 and your own knowledge, evaluate the possible economic effects of the proposed increase in the minimum wage. Use an appropriate diagram in your answer.

(14)

Minimum wage is the least wage which a employer can give to its employee legally. This is set by the government and is usually above the ~~minimum~~ equilibrium price level.

An increase in minimum wage would mean that the cost of production of the firms would increase. This may result in ~~f~~ a cut down in the number of workers employed to reduce the cost. The workers who are less productive and ~~elder~~ ~~etc~~ elderly are likely to loose their jobs. Hence, minimum wage legislation is a classical example of government failure. ~~to~~ Government failure occurs when the government intends to do good but end up doing bad to the economy. The diagram below shows the effect of introduction of minimum wage.



In the above diagram, We is the equilibrium ~~price~~ wage and Wmin is the minimum wage. Due to introduction of minimum wage, ac is the total unemployment. ab is unemployed because they lost their jobs and bc is unemployed due to excess supply of workers. However, the unemployment may not be significant if the demand for ~~the prices~~ products rise as well, as then the labour's demand will also increase.

The effect of minimum wage won't only fall on the labours but also on the employers and firms. Small firms would face difficulties as they would not be able to cope up with the increasing costs and thus may shut down, increasing unemployment even further.

However, the benefit of minimum wage is that the workers who would be able to retain their their jobs will experience an increase in their wages, SOL and lifestyle. The firms may not also loose out if they can increase the prices of their products and the demand doesnot fall so significantly.

ResultsPlus
Examiner Comments

The candidate defines minimum wage for Level 1. The response then refers to the rise in costs of production and how this may lead to a cut in the number of workers which is an example of government failure for Level 3. The diagram shows minimum wage imposition and not an increase in the minimum wage so it is awarded Level 1.

For KAA, the response is awarded Level 2 overall as there is one well-developed point in context but using the wrong diagram limits the response to Level 2. It is awarded 5/8 marks.

Evaluation looks at depending on if demand rises for Level 2 and how small firms are unable to cope for Level 1. Reference to the standard of living increases for retained workers is Level 2. Identifying that employers will not lose out if they can increase prices is Level 1. Overall for evaluation there are two well-reasoned evaluative points with others identified. It is awarded 4/6 evaluation marks.

Total: 5 (KAA) + 4 (EV) = 9 marks

ResultsPlus
Examiner Tip

Be careful with diagrams. In class candidates will draw diagrams showing the imposition of minimum wage and many drew this diagram. This question clearly stated that they have a minimum wage and to evaluate the impact of the increase in it. Candidates need to draw this to show the impact.

Question 9 (e)

The performance on this question has outperformed the 6 mark part of question 10. Candidates had a good grasp of how the division of labour and specialisation will help a firm, and the problems it may cause. Where candidates performed less well is linking to the clothing industry. It is important that Centres and candidates work on applying to the context. Simply talking about how one person can cut, another sew and another package will help put it in context. Similarly workers becoming bored of only cutting all day moves it to being in context.

This candidate has achieved full marks on this question.

(e) Discuss the possible advantages and disadvantages of specialisation and the division of labour in organising production in the Bangladeshi clothing industry.

(10)

Specialisation is when the whole production process is broken down and each worker undertakes one part of the whole process e.g one worker will stich the clothes, the other will design the clothes and another can give colour to the clothes.

Firstly, specialisation reduces cost per unit of the firm because workers would be producing in bulk and production will be faster due to economies of large scale production.

Furthermore, specialisation saves workers' time as they don't need to move from one process to the other. Also, the use of machinery has enabled the production process to speed up.

Furthermore, it saves firms the cost of training as each worker is specialised in a specific task, so less instructions need to be given and training costs fall in the long run.

However, specialisation leads to boredom due to repetitive work undertaken by workers hence they can become careless and accidents such as the fire may occur.

Also, it leads to a lot of bulk production because clothing is produced on a large scale and if not all of it is sold, it could lead to wastage. Moreover, specialisation leads to loss of craftsmanship as most of the work is being done by machines.
In addition, absenteeism of one worker may slow down the whole production process.

ResultsPlus
Examiner Comments

The candidate explained specialisation and with the relevant example the response achieved Level 3 as it was in context of the data. The response then linked to how specialisation and division of labour helps reduce costs per unit as the workers do not need to move from one job to another, which achieves Level 3 as it is well developed. The response then links to how less training is needed which lowers cost, which achieves Level 3.

For KAA, the response achieves Level 3 overall as a well-developed response is offered that links to the context. It is awarded 6/6 KAA marks.

For evaluation, the response refers to boredom due to repetitive work and absenteeism which will slow down the whole process. The evaluation achieves Level 2 as each is developed. It is awarded 4/4 evaluation marks.

Total: 6 (KAA) + 4 (EV) = 10 marks.

ResultsPlus
Examiner Tip

Good use of connectives to show the examiner where they are developing a response, e.g. use of ‘however’ to indicate evaluation and ‘moreover’ to show another point is being developed.

This candidate offers development but it is a largely theoretical piece. Had the response linked more to the clothing industry, it would have achieved a better score.

(e) Discuss the possible advantages and disadvantages of specialisation and the division of labour in organising production in the Bangladeshi clothing industry.

(10)

Division of labour is the breaking down of production process into smaller parts allocating the workers to their tasks. Specialisation refers to allocating the workers to a specific task in which he/she is best suited.

Using division of labour the workers benefit from being very much productive and efficient. Since they are also speialised in performing specific task it ~~+~~ is not at all time-consuming and they can be very productive in a very limited time. For example: The ~~f~~ workers of Bangladesh are specialised in clothing production.

This helps the clothing firms to enjoy lower cost of production and higher profit, since they are getting the supply of clothing at a very low cost per unit.

However, division of labour might make works for the workers very boring since it is a very repetative task. This might make them inefficient and make them de-moralised for work. Thus on the other hand firms might even facing difficulties on labour inefficiency.

ResultsPlus

Examiner Comments

The candidate defines specialisation and division of labour to achieve Level 1. The response makes reference to being more productive and more efficient leading to lower costs for Level 2.

For KAA, the response is awarded Level 2 overall with sound theoretical arguments about division of labour. There is, however, only superficial reference to the clothing industry. KAA is awarded 4/6 marks.

Evaluation looks at how the jobs will be repetitive and therefore boring which may lead to efficiency problems which is Level 2.

Evaluation is Level 2 overall with 1 well developed point. Evaluation is awarded 3/4 marks.

Total: 4 (KAA) + 3 (EV) = 7 marks.

ResultsPlus

Examiner Tip

Another evaluative comment would be needed to achieve 4 marks here.

Question 10 (a)

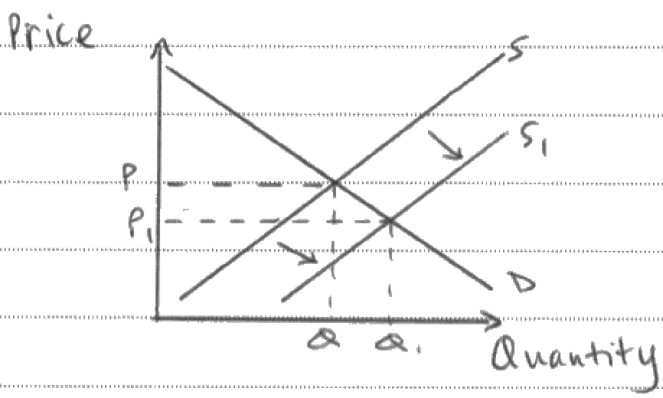
This question required candidates to explain why coffee prices fell. Typically, candidates were able to identify from the data that there were good harvests and good weather. They tended to also correctly draw the diagram with the correct shift in supply. Referring to the change in price was surprisingly rare which is why fewer candidates achieved top marks. Despite this, candidates performed better than in question 9a, which was also worth 6 marks.

It was rare for candidates to achieve full marks on this question. A significant number omitted to include data on how prices change. This response achieves full marks because it uses the data reference.

(a) With reference to Figure 1 and Extract 1, explain why coffee prices 'fell to a four and a half year low in October 2013'. Use a supply and demand diagram in your answer.

(6)

Supply is the amount producers are willing to sell their goods for at a given price. Supply of coffee had increased due to good harvests in Latin America and Vietnam and due to improved weather conditions.



Due to an increase in supply from S to S_1, prices of coffee fell from P to P_1. In Jan-2011, prices of coffee were approximately US 260 cents per pound. ~~then~~ Then in Jul-2013, prices of coffee fell to approximately US 120 cents per pound.

Results Plus
Examiner Comments

This response achieves full marks. It identifies that there has been a good harvest for 1 mark, improving weather for 1 mark. The diagram achieves 3 marks for original equilibrium, new equilibrium and the shift in supply. The final mark is achieved for identifying the change in price from 260-120 US cents.

Results Plus
Examiner Tip

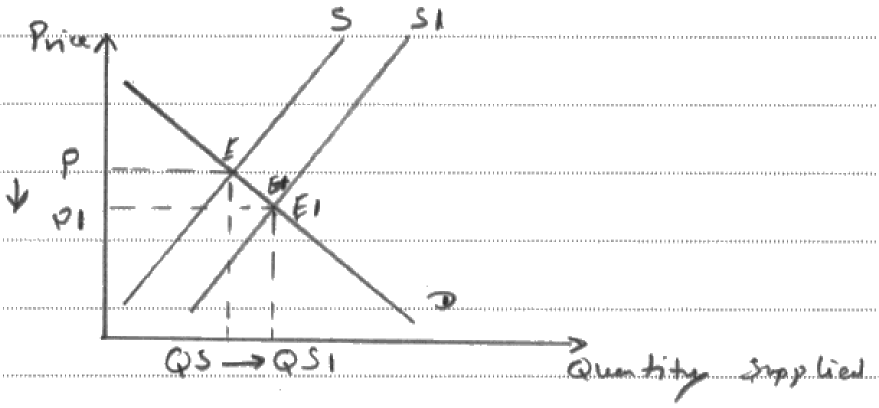
Be careful to include the correct units for prices. Many candidates referred inaccurately to pounds or dollars rather than US cents.

The candidate refers to data in terms of good harvests and good weather and accurately draws a diagram. This sort of response was fairly typical. Many candidates were not able to score full marks as they did not refer to the actual prices.

(a) With reference to Figure 1 and Extract 1, explain why coffee prices 'fell to a four and a half year low in October 2013'. Use a supply and demand diagram in your answer.

(6)

The great fall in coffee prices was due to an overall increase in supply. There were good harvests in Latin America and Vietnam as well as good weather conditions which helped boost production levels. And so the overall increase in supply cause a decrease in the price.



ResultsPlus Examiner Comments

The response identifies the good harvests in Latin America and Vietnam for 1 mark and good weather for another mark. The diagram achieves 3 marks; 1 each for original equilibrium, new equilibrium and for the shift of supply.

ResultsPlus Examiner Tip

In order to get the last mark candidates should refer to data looking at what the price has changed from and to.

Question 10 (b)

In this question candidates had to explain whether the supply of coffee was elastic or inelastic. Unfortunately a few candidates looked at elasticity of demand so more care needs to be taken in reading the question.

Candidates took a number of approaches to the question and were able to argue for it to be elastic or inelastic as long as they could use relevant data. For example some mentioned that supply was slowly being adjusted suggesting an inelastic response to the fall in price. However many referred to high supply levels and stockpiles that might make the ability to respond to price changes high and therefore elasticity of supply could be argued to be elastic. Most attempted to define price elasticity of supply and then identified which they thought it was with reference to the data.

The answer here looks at the idea of stocks and how they can respond with supply when price rises.

(b) With reference to Extract 1, explain whether the supply of coffee beans is likely to be price elastic or price inelastic.

(4)

~~Supply~~ Price elasticity is the responsiveness of supply to a change in price. $\frac{\text{\% change in Qty supplied}}{\text{\% change in price}}$.

It is going to price elastic, as the producers have stocks that can be released when there is excess demand. It will help to meet the excess demand

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Examiner Comments

This candidate has defined price elasticity of supply for 1 mark. The response then gains an additional mark for identifying supply as elastic. It then references the level of stocks for 1 more mark. Total = 3 marks.

ResultsPlus
Examiner Tip

Candidates need to explain the relationship between price and supply of elastic goods for an extra mark.

The response almost offers evaluation in terms of how it might be elastic or inelastic but in this example, both were awarded as knowledge, application or analysis.

(b) With reference to Extract 1, explain whether the supply of coffee beans is likely to be price elastic or price inelastic.

(4)

Price Elasticity of Supply - is the degree of responsiveness of supply to changes in price.

formulae : PES = $\frac{\text{Percentage (\%) change in supply}}{\text{" (\%) change in price}}$.

Coffee beans are price inelastic in the shortrun as it is an agricultural good and thus an increase in demand can not be met quickly as it depends on seasons. However supply for coffee can be elastic in the long run if producers have storage facilities for coffee so that when the harvest is bad then the stock can be removed so as to meet consumer demands.

ResultsPlus

Examiner Comments

The response gets 1 mark for defining price elasticity of supply.

In addition, 1 mark is awarded for mentioning that in the short run it will be price inelastic and 1 mark for noting that they will not be able to meet demand quickly. The response is then awarded 1 mark for appreciating that if their stock piles supply will be elastic. The response achieves the maximum of 4 marks.

ResultsPlus

Examiner Tip

As you can see, this candidate has fitted their response in the space provided. Many candidates wrote in the space just above part C and unless it is clear that something is written in this space there is no guarantee the examiner will know. To make sure all of the response is marked it is recommended that you write on an additional page and to refer to it at the end of your response.

Question 10 (c)

The question caused a significant challenge to many who attempted this question. Many candidates could not go past defining public and private goods. Application to how roads were rival or excludable, or not, was weaker than expected. However there were some good responses that looked at how roads are non-excludable in that it is hard to prevent non-farmers using the road and that it is non-rival as one farmer using it does little to impact on other users. For evaluation the best work looked at how it is possible to exclude people by tolling the road. Centres should spend time looking at goods and considering how they might be excludable or rival to give candidates practice at this sort of question.

A better response clearly applying to roads and linking to excludability and rivalry. Evaluation is briefer but still applied to context.

A public good is one which has the features of non-rivalry non-excludability and non-rejectable e.g defense, ~~street~~ lights. A private good is rivalry, excludable and rejectable.
The KCU road in Tanzania can be seen as a public good because it is non-rivalry and has set connections between "farming groups and coffee collection areas". ~~The fact that the road is provided cost free to individuals~~ Also, the road is non-excludable meaning anyone can use it. However this creates the free rider problem where non-payers cannot be excluded for the consumption of a good or service which the roads assure as any non-farmer can access the

The roads built by KCU in Tanzania are public goods because even if it was built for the ease of transportation of goods by farmers it does not exclude other people from using the road.

ResultsPlus
Examiner Comments

The response achieves Level 1 by defining public and private goods. There is clear development of how roads maybe non-excludable and non-rivalrous to achieve Level 3. For KAA it is awarded 6/6 marks. There is one developed evaluation point on excludability and is awarded 2/4 evaluation marks.

Total: 6 (KAA) + 2 (EV) = 8/10 marks

The level of the work presented here was fairly typical. There is some relevant knowledge but no evaluation offered.

(c) With reference to Extract 2, assess whether the roads built by the KCU in Tanzania are public or private goods.

(10)

Public goods are goods that have the characteristics of ~~non-arivalry~~ non-rivallary and non-excludability. This means that these goods will be available for other people to consume even after the consumption of other people. For example street lights.

Private goods are goods that are for ~~a~~ a single individual or individuals. This means that once a product is consumed it will not be available for other people to consume. For example when a firm builds a building on a land that land will no longer be available for other firms.

The roads built by KCU in Tanzania are public goods because even if it was built for the ease of transportation of goods by farmers it does not exclude other people from using the road.

ResultsPlus

Examiner Comments

The candidate defines public goods and private goods to secure Level 1. The response is not in context of roads and does not answer the question. There is a brief attempt to consider non-excludability of roads which allows them to achieve Level 2. KAA is awarded 3/6 marks. No evaluation offered.

Total: 3 (KAA) + 0 (EV) = 3/10 marks

ResultsPlus

Examiner Tip

When revising candidates need to look at goods and consider how they might be excludable or rival, or not.

Question 10 (d)

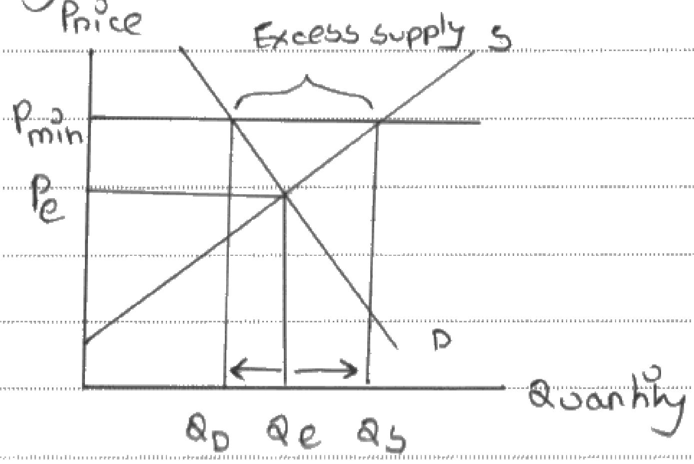
As with the other 14 mark questions, this question saw candidates perform well. The development of knowledge, application and analysis marks was better than in previous series with more candidates achieving Level 3. The evaluation was also better developed with sufficient links to context. The question on minimum price tended to find candidates looking at the benefits of such a scheme, such as price stability, improved incomes, better levels of investment and stockpile being available for when needed. Evaluation points made tended to focus on opportunity costs and costs of storage and issues when there are a number of years with price below the minimum price.

This candidate offers excellent knowledge and some sound evaluative points.

(d) Evaluate the possible economic effects of the Brazilian Government's decision to buy 'three million 60-kilogram bags of coffee' (Extract 3, lines 2 and 3)

(14)

Minimum price is the price set by governments ~~below~~ above the equilibrium price to protect the interest of ~~consume~~ producers. In agricultural sectors, sometimes because of excess supply prices may fall too low, even below the production cost. This will distort the interest of producers causing them to exit from the market which might result in market failure. In such cases, the government intervenes and sets a minimum price above the equilibrium price which will improve the earnings of producers and encourage them to stay in the market.



The imposition of minimum prices raise prices and might make consumers reduce their consumption for it. In the diagram, after the imposition of minimum price, the ~~QD~~ quantity demanded had fallen to Qp and the quantity supplied had ~~to~~ risen to Qs indicating an excess supply. ~~A~~ In such cases, the government buys off the excess supply from the agricultural workers and keeps it in their stock pile for the operation of buffer stock scheme which makes use of two price bands and the government intervenes by keeping the price between the two bands. ~~when~~ In this case, the aim of the government was to keep price above the minimum price. In the long run and following years, if the ~~price of~~ supply of coffee is less than demand, the government can sell from the stockpile by increasing supply and reducing price again to meet the demand.

However, due to the imposition of minimum cost, ~~go~~ the market faces excess supply and there is a cost for the government to by the excess supply which can be an opportunity cost for them. They may also raise taxes to fund revenue.

ResultsPlus

Examiner Comments

There is a well-developed first paragraph that achieves Level 3 which talks about how the minimum price protects the interests of producers. The response looks at how the price may go below production costs and how minimum price improves farmers' earnings. The diagram is accurate and supported by detailed explanation to achieve Level 3. Use of stockpiles in future also achieves Level 3. For KAA, the response has well developed points in context of the question and is awarded 8/8 marks. Evaluation has one developed point linked to opportunity cost which relates to Level 2. There is only a passing reference to consumers that is Level 1. Overall for evaluation, with one evaluative point identified and one developed evaluative point, the response achieves Level 2 and is awarded 3/6 marks.

Total: 8 (KAA) + 3 (EV) = 11/14 marks

ResultsPlus

Examiner Tip

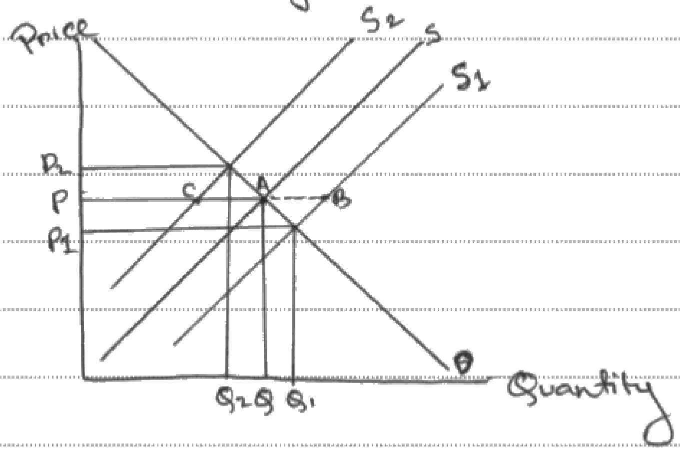
When diagrams are used on larger questions you are more likely to achieve Level 3 if you use them to support your arguments.

The level of the work presented here was fairly typical. There is some relevant knowledge but no evaluation offered.The performance on KAA was good but the candidate performed less well on evaluation.

(d) Evaluate the possible economic effects of the Brazilian Government's decision to buy 'three million 60-kilogram bags of coffee' (Extract 3, lines 2 and 3)

(14)

Here, there was fall in Arabica coffee which was below the government minimum price. This means that the government has set a minimum price for Arabica coffee so that the price of the coffee doesn't fluctuate. ~~The governm~~ There was a fall in price due to excess supply. May be due to favourable weather condition there was a bumper harvest, leading to a fall in price. The government buys the excess supply of 60 kilograms at 348 reals per bag which is above the market price at 285 reals per bag. The government might have done this to maintain a buffer stock, which means that a safety stock held to stabilise price of the commodity market.



In the above diagram, we can see that during a bumper harvest of Arabica coffee, the supply curve shifts to right from S to S1. And the government purchase the excess supply of 'AB' and store it. ~~If due to unfavour~~ So that the price stay stable. If due to unfavourable weather conditions, in the future, there is a crop failure. The supply will shift to left from S to S_1. ~~falling~~ Then ~~the~~ so that the price doesn't rise. The government will ~~rele~~ release the excess supply 'CA' in the market, to stabilise the price.

However, buffer stock may not be sufficient enough if there is consecutive bad years. The stocks may be insufficient to stabilise the price. On the other hand, there is an opportunity cost for the government as the could have use this money on other sectors, such as education, etc. The government spending is rising, ~~leadi~~ ~~the~~ may lead to rise in tax.

ResultsPlus
Examiner Comments

The response explains that the market price is below the government minimum price and further expands on how the government helps ensure the price does not fluctuate to achieve Level 2. The reference to data/price is Level 2. It then refers to how it stabilises the price, but credit had already been given for this. The diagram was well explained, particularly referring to the amount they would purchase AB to achieve Level 3. It then refers to how they can release buffer stock later for Level 2.

Overall for KAA, the response is rewarded for the effective use of diagram that enables it to rise into the top level but more development is required to achieve top marks. The response is awarded 7/8 KAA marks.

For evaluation, the point made that releasing buffer stock is not relevant when at minimum price and the opportunity costs increases government spending is awarded for Level 2.

One developed evaluative point made, although the other is not rewarded for Level 1. For evaluation the response is awarded 2/6 marks.

Total: 7 (KAA) + 2 (EV) = 9/14 marks

ResultsPlus
Examiner Tip

Referring to the diagram helps candidates access higher levels.

Question 10 (e)

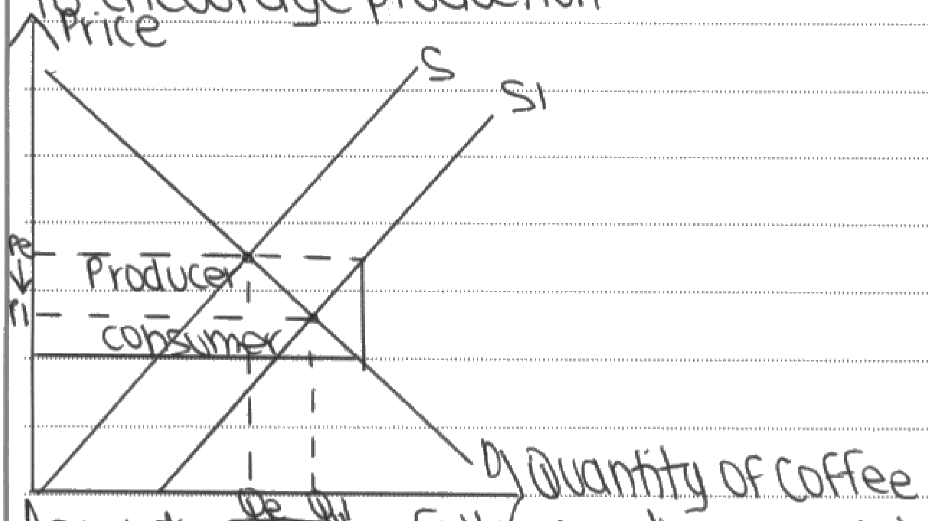
This question on subsidies for the coffee industry was well answered. There was better development of KAA points and more detailed evaluation offered compared to previous series. The better responses defined subsidy and linked to production costs and how this led to increased supply, quantity and lower prices and how it supported incomes. A significant number of candidates accurately drew a diagram. The impact on the government was also considered in terms of the opportunity costs and maintaining employment. Evaluation tended to focus on the magnitude and measurement issues.

This candidate has achieved full marks for evaluation and at the top of Level 2 for KAA.

(e) With reference to Extract 3 and your own knowledge, evaluate the likely impact on producers and the government of increasing subsidies to coffee producers in Colombia.

(14)

Subsidies are a grant given by the government to encourage production.



According to the following diagram, when the subsidy reduces the cost of production of coffee, causing supply to ~~shift~~ increase from "S to S1", the price of coffee will fall from "Pe to P1" Thus increasing the demand of coffee from "Qe to Q1".

When the demand for coffee increases, ~~&~~ coffee ~~growers~~ producers will be benefited by highers ~~a~~ sales, and thus higher profit margins. Improving the income of coffee farmers and thus their standard of living.

However, this may not allways be the case as it depends on the size of the subsidy, as if the subsidy is smaller it will not have a significant effect on the cost of production, so the price of coffee may not ~~increase~~ fall. ~~This means that or may fall less than~~ So demand for coffee may not rise, resulting in ~~so for~~ coffee farmers ~~may~~ not benefiting from high profit margins.

Furthermore, according to the Colombian government coffee farmers get more subsidies than any other sector in the country. As a result these coffee farmers may be misusing ~~th~~ this subsidy, or not using it efficiently minimising it's effects. ~~and deeming~~

~~Lastly, the cost of the subsidy to the Colo will provide a major opportunity~~ Lastly the cost of the subsidy to the Colombian government will create a major ~~oppr~~ opportunity cost for them. As a result they may not be able to subsidise other sectors in the economy, or invest in the improvement of infrastructure and roads in ~~for instance~~ the economy.

ResultsPlus
Examiner Comments

The response defines subsidy and links this to production costs for Level 1. The diagram was accurately drawn with thorough and extensive explanations for Level 3. Consumer and producer subsidy and total government expenditure is explicitly identified for Level 3. This is linked to revenues and employment for Level 3.

KAA - A well-developed response looking at the impact on a range of economic agents. The candidate effectively uses diagram to analyse producer, consumer and government impacts. It is awarded 8/8 marks.

The evaluation looks at opportunity cost and other costs such as, wage rate, misuse of subsidies, few new jobs if machinery used and dependency. A number of evaluative points, several of them developed accessing Level 2 overall. It is awarded 4/6 marks.

Total: 8 (KAA) + 4 (EV) = 12/14 marks

ResultsPlus
Examiner Tip

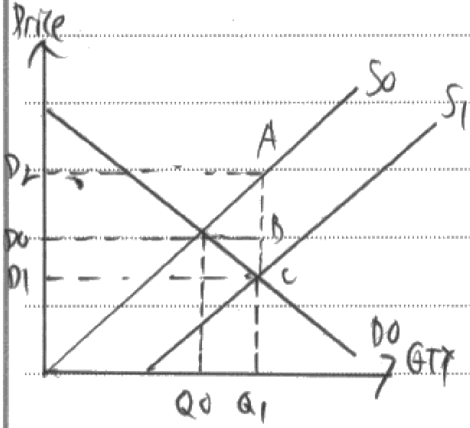
Directional arrows to show shift of supply and changes in quantity and price would be useful to the examiner.

This response achieves full marks for KAA and achieves top of level 2 for evaluation.

(e) With reference to Extract 3 and your own knowledge, evaluate the likely impact on producers and the government of increasing subsidies to coffee producers in Colombia.

(14)

A government subsidie is when the government intervenes to increase production and consumption of a good. Subsidee would decrease production costs of ~~making~~ producing coffee. ~~Subsidie~~ Subsidie causes price to drop from P0 to P1 and ~~quantity~~ supply ~~to~~ ~~increase from Q0 to Q1~~ curve to shift to the right. Area of subsidie passed to consumer is P0 B C P1. Area absorbed by producer is P2 A B P0. Total government expenditure is P2 A C P1. Consumer surplus also increases.



The likely impact on producers is that they would have earned higher revenues. This revenue can be used to develop technology in coffee forming and increase productivity. Producers can also afford to hire more employees which would decrease ~~un~~ unemployment rate and poverty rate of the country. The government would incur and opportunity cost. These ~~~~ funds could have been used to develop infrastructure or for healthcare. ~~The government also earns less tax revenue from~~ The subsidies would also allow the coffee producers to become more competitive. However, production costs may not fall very greatly as there are other factors ~~~~ of production costs such as wage rate and machinery. If wage rate were to increase then ~~~~ it would cancel off the effects of the subsidie and production costs would remain the same. Coffee producers might not invest in better technology and instead pocket the money only. Since coffee refining is done mostly by machinery, not many new job opportunities may be created. The coffee producers may also become dependant on the subsidy. Gov revenue may increase as it can tax the ~~~~ increase revenue ~~~~ from coffee producers.

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Examiner Comments

The response defines a subsidy for Level 1. The diagram shows a subsidy causing the correct shift and it offers some explanation for Level 2. The response confuses producer and consumers surpluses. There is reference to cost of production and its impact for Level 2. It talks about how coffee producers benefit from increase in profit and standard of living for Level 2.

Overall for KAA the response achieves Level 2 with sound economic understanding but lacks development for a higher level. It is awarded 5/8 marks.

The evaluation is well-developed with work on magnitude, inefficiency of subsidies misused and opportunity costs. It is awarded 6/6 marks.

Total: 5 (KAA) + 6 (EV) = 11/14 marks

ResultsPlus

Examiner Tip

More practice is needed here on drawing the producer and consumer subsidy and the total costs of the subsidy for the government.

Paper Summary

There was a significant improvement in performance on the supported multiple choice section as well as improvement in the performance on 14 mark questions. 4, 6 and 10 mark questions performed as well as in previous series. Overall there was an improvement in the quality of responses offered. Based on their performance on this paper, candidates are offered the following advice:

- On supported multiple choice questions where a diagram is drawn, it is usually advisable to annotate it. Many draw the same diagram again adding annotations, but this is not a productive use of time in the exam.
- Be careful to read the question stem carefully. Many spoke about the elasticity of demand rather than supply for 10b.
- Candidates and Centres need to do more work on consumer behaviour and rational behaviour. Candidates found it very difficult to explain rational behaviour.
- Always draw a diagram when it explicitly asks for one in the question.
- Label the axis and curves on diagrams. Show arrows for the direction you are shifting or prices and quantities are changing.
- More care needs to be made when drawing consumer and producer subsidy.
- When showing the effects of subsidies candidates should look to identify the total government spending and the producer and consumer subsidy.
- Do not refer to opinions when discussing normative statements.
- Candidates need to be able to determine whether a natural resource is renewable or non-renewable.
- When defining a subsidy make sure it fits the question. Many defined subsidy as grants to producers which did not fit the question asked.
- 9a asked candidates to draw the impact on the labour market, many did the clothing market and scored lower because of this.
- Candidates need to be able to look at the excludability and rivalry of goods, or to be able to identify whether they are public or private goods.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx

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