



Mark Scheme (Results)

Summer 2019

Pearson Edexcel IAS
In Economics (WEC01)
Paper 01 Markets in Action

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Supported multiple choice

NB: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

NB: Candidates may achieve up to 3 marks (rejected marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
1	<p>Answer C (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of positive statement- e.g. value free/ objective/ based on evidence/ can be proven true or false (1) • We can check whether health spending has risen in Sweden/ fallen in Ireland (1) • Both statements positive as they include evidence/ have data to be tested/ Explicit reference to data (1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option A: incorrect as neither statement has a value judgement so it cannot be normative (1) • Option B: incorrect as statement 1 is not normative as it is stating evidence on health spending in Sweden that we can check (1) • Option D: incorrect as statement 2 is not normative as it is stating evidence about health spending in Ireland that we can check (1) 	(4)

Question Number	Answer	Mark
2	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of production possibility frontier- maximum possible production using all available resources (1) • Population decline of 723 000 will mean there is less labour available/ size of workforce reduces (1) so will be able to produce fewer capital goods and consumer goods (1) • An economy is efficient when no resources are wasted and it is on the PPF/ X and Y are on the PPF showing no resources are wasted (1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option A: incorrect because this shows the impact of population growth / this would happen if more people came in to the country (1) • Option C: incorrect as the movement to Y is unobtainable/ production possibilities would rise and the PPF shift out (1) • Option D: incorrect as the movement to Y shows the economy moving from efficiency to having unemployed resources/ inefficient outcome (1) 	(4)

Question Number	Mark	
3	<p>Answer B (1 mark)</p> <ul style="list-style-type: none"> • Definition or formula for price elasticity of demand- responsiveness of quantity demanded to a change in price or the value of PED is between 0 and -1 making demand inelastic (1) • So the gain in total revenue from the higher price is greater than the loss in total revenue from having less customers (1) so the result is an increase in total revenue (1) • When price rises consumers will respond less than proportionately to the change/ electricity shows it is seen as an essential good so quantity demanded does not respond much to a change in price (1) • Diagram showing change in original and new total revenue following a price rise. They may indicate the loss and gain but the diagram must show total revenue rising (1+1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option A: incorrect as an increase in income will lead to a less than proportionate increase in demand/ incorrect as the elasticity would need to be greater than 1 (1) • Option C: incorrect as electricity has an income elasticity of +0.13 meaning it is a normal good and not inferior/ an inferior good would have a negative YED (1) • Option D: incorrect as the price elasticity of demand is -0.07 making demand inelastic (1) 	(4)

Question Number	Answer	Mark
4	<p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of derived demand- where the demand for labour is derived from the demand for the final product OR identification of labour as a derived demand (1) • As the sales of hybrid electric vehicle increases 25 900 more cars will need to be manufactured so the firms will need to employ more labour to fulfil the increased number of orders (1) • With demand for labour increasing this will result in wage rate rising (1) • Diagram may be drawn showing demand for labour rising (1) and wage rate rising (1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option A: incorrect as employment will rise as more cars will need producing (1) • Option B: incorrect as the higher demand is likely to cause people to move from unemployment to employment (1) • Option C: incorrect as higher demand for labour will see wages rise (1) 	<p>(4)</p>

Question Number	Answer	Mark
5	<p>Answer D (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Habitual behaviour is where consumers will regularly/routinely complete an action (1) • Customers will remain loyal to their gas and electricity supplier (1) • Definition of rationality- where consumers seek to maximise utility/ irrationality- where the consumers do not seem to maximise their utility (1) • A rational consumer would switch to be able to save AUD929 in Victoria and AUD532 (1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option A: incorrect as if they were good at computation they would calculate the annual savings and switch (1) • Option B: incorrect as immobility of labour is about why workers do not move locations or occupations (1) • Option C: incorrect as if they felt undervalued they would be more likely to switch to a supplier who may value them more (1) 	(4)

Question Number	Answer	Mark
6	<p>Answer A (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of specialisation/ the division of labour- where tasks are broken down and each worker focuses on a specific task (1) • If workers focus on a specific task they will not need to keep changing tools (1) which will save them time allowing them to focus on production (1) • If workers focus on one activity they will become more skilled at that activity (1) enabling them to produce more output (1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option B: incorrect as unit costs would fall as output per worker rises (1) • Option C: incorrect as specialising will reduce the number of times they change tools and should help reduce the time taken to produce each book case (1) • Option D: incorrect as firms used to need to train workers on all aspects but will now only need to train them on the specific task they will undertake (1) 	<p>(4)</p>

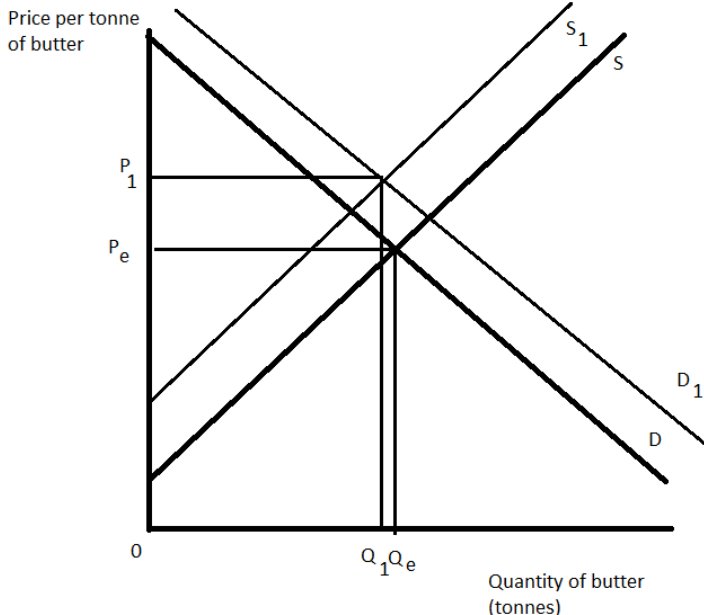
Question Number	Answer	Mark
7	<p>Answer B (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of mixed economy- where economic decisions are made by both the price mechanism and government/ public and private sector (1) • Definition of public goods- non-rival and non-excludable (1) • The free rider problem means that consumers will use the good without paying (1) meaning firms find it difficult to profit from them so the government has to provide them (1) • Public goods provided include street lights/ flood defences (1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option A: incorrect as goods with external costs would be taxed to discourage consumption (1) • Option C: incorrect goods with external benefits will be subsidised to encourage production (1) • Option D: incorrect as the price mechanism does not involve government intervention (1) 	(4)

Question Number	Answer	Mark
8	<p>Answer C (1 mark)</p> <p>Explanation (up to 3 marks)</p> <ul style="list-style-type: none"> • Definition of tradable pollution permit scheme – where firms are allocated permits and then can buy and sell them as required (1) • If a firm reduces its carbon emissions below its permitted level it will be able to generate revenue by selling permits (1) • If a firm pollutes at a level above its permitted level it will have the added costs of having to buy permits (1) • This creates an incentive to reduce pollution to avoid added costs/ gain from additional revenue (1) <p>Rejection marks Do not double award</p> <ul style="list-style-type: none"> • Option A: incorrect as firms do not receive a subsidy when they pollute as part of a permit scheme (1) • Option B: incorrect as if they pollute above their permits they will have to find other firms to buy from (1) • Option D: incorrect as those that pollute above the permitted level will buy permits (1) 	<p>(4)</p>

Section B: Data response

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

NB: Evaluation marks relates to those awarded for AO4

Question Number	With reference to Extract 1, explain why the price of butter increased between April 2016 and September 2017. Illustrate your answer with a supply and demand diagram	Mark
9(a)	<p>Answer</p> <p>Knowledge, application and analysis (up to 6 marks)</p> <ul style="list-style-type: none"> • Price of butter increased from €2 500 per tonne in April 2016 to €4 500 in September 2017 / 80% increase in cost of butter (1) • Demand increasing due to increased popularity of baking using butter/ experts have suggested butter is not as fattening as previously thought/ increased consumption of butter in China and Japan / 19% increase in consumer demand between 2016 and 2017. (1) • Supply decreasing due to dairy farmers leaving the market/ less milk available (1) • Original and final equilibrium (1) • Shift in demand (1) • Shift in supply (1) 	(6)

Question Number	With reference to Extract 1, evaluate the likely effects of the increase in the price of butter on food manufacturers		Mark
	Answer		
9(b)			(14)
Knowledge, application and analysis – indicative content			
	<ul style="list-style-type: none"> • Butter is used in the production of biscuits, cakes, pastries and fudge • Experienced an 80% rise in the cost of butter in one year/ costs per tonne increased from \$2500 to \$4500 • Higher costs of production so supply falls • Demand contracts • Prices rise- higher prices were inevitable/ no longer avoid prices rises • Quantity falls • Consumer surplus falls • Producer surplus falls • Profit falls as they absorb increased costs and avoid prices rises • Revenue falls • May substitute to cheaper alternatives such as margarine • May reduce the quantity of butter purchased/ may adjust recipes • May focus on less butter rich foods • Reduced output may result in unemployment 		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some awareness of the impact of rising butter costs on manufacturers but information presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.	
2	4-6	Understanding of the impact of rising butter costs on manufacturers. This may be supported by an accurate diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.	
3	7-8	Clear understanding of the impact of rising butter costs on manufacturers relevant to context. This may be supported by an accurate diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.	

Evaluation – indicative content		
	<ul style="list-style-type: none"> • Magnitude – an 80% price rise is significant/ €2 500 to €4 500- likely to have significant impact • Small proportion of total costs made up by butter/ other costs more significant • Time period: may have contracts meaning butter price fixed for some time/ prices may fall later reversing the effect • Substituting to margarine may avoid cost increases • Revenues may rise if demand is inelastic and price rises • Reserves may mean they avoid having to make staff redundant <p>Other costs may not be rising/ falling</p>	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some reasoning and application to context.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

Question Number	With reference to Figure 1, explain the effect of the increase in the price of butter on the demand for margarine in the UK Answer	Mark
9(c)	<p>Knowledge, application (Up to 4 marks):</p> <p>Knowledge (2 marks):</p> <ul style="list-style-type: none"> • Define substitutes- goods that can be used in place of each other/ that meet the same want or need (1) • XED is positive/ $XED > 0$ (1) • Diagram showing relationship between price of butter and demand for margarine (1) <p>Application (2 marks):</p> <ul style="list-style-type: none"> • You can use margarine or butter in making a cake / use butter or margarines in a sandwich/ on toast/ pastries/ biscuits (1) • So if price of butter increases the demand for margarine will increase (1) • XED is +0.08 so it is a substitute/ butter and margarine are substitutes (1) • A 10% increase in the price of butter will lead to a 0.8% rise in demand for margarine (1) • Data suggests they are not strong/ good substitutes/ they are weak substitutes as it has a highly inelastic XED (1+1) • There will be less than proportionate affect on demand (1) 	(4)

Question Number	With reference to Extract 2, to what extent is it likely that a buffer stock scheme will reduce price fluctuations of butter? Answer	Mark
9(d)		(10)
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> • Definition or explanation of buffer stock scheme – where government sets a maximum (ceiling) and minimum (floor) price • When price goes above ceiling price they will sell stocks/ When the price goes below floor price they will buy stocks • This is to stabilise the price of butter • Helps customers in ensuring price does not go too high • Helps producers in ensuring incomes do not go too low • The EU will pay the floor (minimum) price when there is over production and the price is below the floor • High price of butter will see the EU release stocks from its buffer stock • $Q_1 - Q$ will be sold by the scheme • The EU will earn revenue from selling the butter-grey area in the diagram • This will keep price at or below maximum price • This will limit any further increases in costs for manufacturers <div data-bbox="443 1397 1161 1861" data-label="Figure"> </div> <p data-bbox="443 1877 1198 1980">Alternative relevant diagrams should be rewarded- including diagram to show what will happen when price below floor price</p>	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-2	Shows some awareness buffer stock. A diagram may be offered and inaccurate. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	3-4	Understanding of buffer stock. This may be supported by an accurately labelled diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	5-6	Clear understanding of buffer stock in market for butter. This may be supported by an accurately labelled diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.
Evaluation – indicative content		
		<ul style="list-style-type: none"> • Magnitude – depends on the level of ceiling price in terms of how much effect it will have on the government • Measurement issue- it is not easy to decide the level to set the ceiling price at • Quality of the butter released may be poor as may have been stored for a long time • Will only provide unsalted butter- those that desire salted butter may not be happy • If they only buy butter between March and August then they may not have the stock in the months of September to February • EU has little influence over global price • Costs associated with storage of butter
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	With reference to Extract 3, evaluate the impact of the introduction of a subsidy for milk farmers in Nepal. Illustrate your answer with an appropriate diagram	Mark
	Answer	

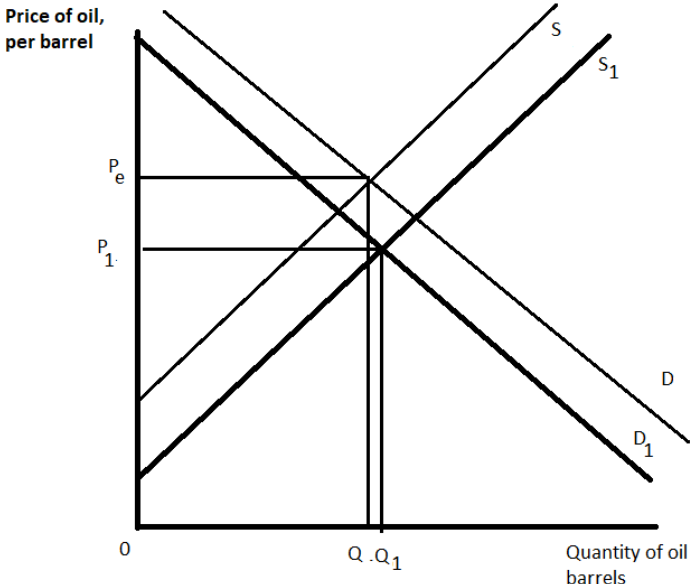
9(e) **(14)**

Knowledge, application and analysis – indicative content

- Definition of subsidy- cash grant to encourage production
- Lowers the costs of production
- Shifts supply to the right S to S^1
- Extension of demand Y to R
- Price of milk falls P_e P_1
- Quantity supplied rises- Q_e Q_1 - more milk available
- Consumer surplus rises-by $P_e P_1 RY$
- Producer surplus rises/ profits for firms improve
- Government spending $P_1 RTU$ / Rs 70million- consumer subsidy ($P_e P_1 RZ$) and producer subsidy ($P_e ZTU$)
- Helps Nepal to reduce its reliance on importing powdered milk costing Rs2 bn per year
- Supports dairy farmers in the country.

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of subsidy but information presented is often irrelevant and lacks organisation. Diagram may be offered but inaccurate. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of the subsidy. This may be supported by an accurate diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation.

		Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the subsidy. This will be supported by an accurate diagram which is explained and applied effectively. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.
Evaluation – indicative content		
		<ul style="list-style-type: none"> • Measurement issue- it is hard to measure the level of subsidy that needs supplying • Time period: depends on how long the subsidy is in place • Magnitude of subsidy- only 1 rupee per litre • Affects selected regions • Only helps larger firms producing 500 litres of milk per day • Opportunity cost of the subsidy
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some reasoning and application to context.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

<p>Question Number</p>	<p>With reference to Figure 1 and Extract 1, explain why there was a sharp fall in the price of oil in the second half of 2014. Illustrate your answer with a supply and demand diagram</p> <p>Answer</p>	<p>Mark</p>
<p>10(a)</p>	<p>Knowledge, application and analysis (up to 6 marks)</p> <ul style="list-style-type: none"> • Price of oil fell from around \$115 in July 2014 to \$40 in Dec 2014(1) • US discovered oil/ Iraq and Libya increased production/ Saudi Arabia increased production (1) • Global demand slowed/ very low or negative rates of economic growth (1) <p>Diagram showing demand increasing</p> <ul style="list-style-type: none"> • Original and final equilibrium (1) • Shift in demand (1) • Shift in supply (1) 	<p>(6)</p>

Question Number	With reference to Extract 1, assess the impact of the introduction of the indirect tax on the market for clothes in Qatar		Mark
	Answer		
10(b)			(10)
Knowledge, application and analysis – indicative content			
	<ul style="list-style-type: none"> • Definition of indirect tax- tax on expenditure. • 5% tax means it is ad valorem • Government will be able to raise tax revenue to cover government spending • Helps to cover funding gap caused by falling oil revenues • Costs for firms rise • Supply pivots left • Prices rise • Quantity falls • Consumer surplus falls • Producer surplus falls • Government revenue- incidence of tax for consumer and producer 		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-2	Shows some awareness of impact of indirect tax. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.	
2	3-4	Understanding of impact of indirect tax. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.	
3	5-6	Clear understanding of impact of indirect tax in Qatar. Accurate diagram may be drawn and explained. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.	

Evaluation – indicative content		
	<ul style="list-style-type: none"> • Time- in short run little effect on demand as likely to be more inelastic/ long run more elastic • Magnitude- 5% tax is relatively small/ change from 0 to 5% is fairly large • Different impacts on different clothing products • Incidence depends on elasticity • Tax avoidance or evasion may reduce the tax revenue earned • Price elasticity of demand- linked to number of substitutes may link to responsiveness of QD or likely tax revenue 	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number	With reference to Extract 2, explain the difference between renewable resources and non-renewable resources Answer	Mark
10(c)	<p>Knowledge, application (Up to 4 marks):</p> <p>Knowledge (2 marks):</p> <ul style="list-style-type: none"> • Definition of renewable resource- resource once consumed will be naturally replenished (1) • Whereas non-renewable resources are not replenished after use (1) <p>Application (2 marks):</p> <ul style="list-style-type: none"> • Renewable resources include: solar energy/ wind turbines (1) • Non-renewable resources: Natural gas (1) <p>NB resources must be from Extract 2</p>	(4)

Question Number	With reference to Extract 2, evaluate the likely microeconomic effects of the introduction of a minimum wage for construction workers in Qatar	Mark
	Answer	
10(d)		(14)
Knowledge, application and analysis – indicative content		
	<ul style="list-style-type: none"> • Minimum wage- the wage floor below which employees cannot be paid • Diagram may be offered • If minimum wage above the market equilibrium- the supply of labour will extend • The demand will contract • Excess supply of labour- unemployment emerges • Quantity supplied is greater than new quantity demanded • Helps support low paid migrant workers • Ensures workers do not receive lower wages • May be more attractive to work in Qatar • Reduces exploitation of migrant workers • Adds costs to firms- may result in lay off of workers 	
Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of impact of minimum wage. Material presented is often irrelevant and lacks organisation or may be confused. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of minimum wage, with some application to context. This may be supported by an accurately labelled diagram. Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of the minimum wage in the context. There may be an accurately labelled diagram which is explained and applied effectively to the context. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.

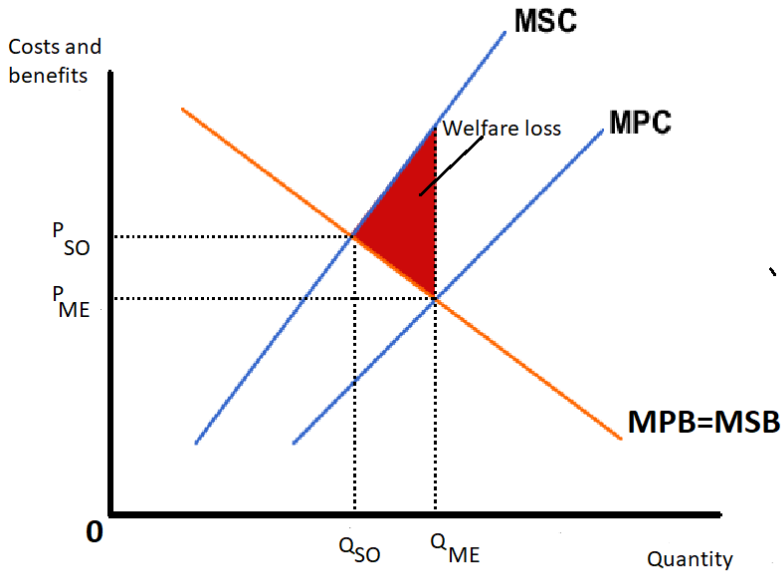
Evaluation – indicative content		
		<ul style="list-style-type: none"> • Magnitude- depends on the level of minimum wage as not stated • Measurement- hard to quantify the impact of minimum wage as other factors may impact • Minimum wage may be non-binding for some construction workers e.g. more skilled occupations • With such high demand for construction due to World Cup little impact on demand for labour • Qatar has made no commitment how much the minimum wage will be and when it is to be introduced • Mistreatment may continue for migrant workers in terms of working conditions • Elasticity of demand for labour may be inelastic meaning little change in quantity demanded
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some reasoning and application to context.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

Question Number	With reference to Extract 3, evaluate the impact of the external costs caused by the construction boom in Qatar. Illustrate your answer with an appropriate diagram	Mark
	Answer	

10(e) **(14)**

Knowledge, application and analysis – indicative content

- Define external costs- negative impacts on third parties
- Air pollution exceeds safe limits- damages health- small particles affect respiratory system
- Impact on health services in treating health problems- leads to costs to government
- Impact on firms- lower productivity due to higher level of illness and absence- adds to the costs of business
- There will be over-production $Q_{ME}-Q_{SO}$
- The price in the market is lower than the social optimum
- Welfare loss due to over-production of the good



Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of external costs. Diagram likely to be inaccurate or incomplete. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding of external costs, with some application to context. Diagram likely to be accurate but may be incomplete. Material is presented with some relevance but there are likely to be passages which lack proper organisation.

		Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.
3	7-8	Clear understanding of external costs and linked to context. Diagram is accurate and used to explain external costs. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found, but the writing has overall clarity and coherence.
Evaluation – indicative content		
		<ul style="list-style-type: none"> • Magnitude- they have the second highest recorded levels/ 10 x higher than recommended amount • External costs may take time to emerge • Air pollution could be caused by vehicle exhaust firms and desert dust • Measuring the size of the external costs is difficult • There may be significant private and external benefits associated with this construction
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation or for developing one evaluative comment.
2	3-4	For developing evaluative comments supported by some reasoning and application to context.
3	5-6	For well developed evaluative comments supported by relevant reasoning and clear application to context.

