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Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel International Advanced Level
In Economics (WEC11)

Unit 1: Markets in action

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Introduction

The entry for this series was significantly higher than in the previous January series. Once again there were many cases where the standard of work has been impressive. Equally there were examples where learners struggled to perform consistently across the paper.

In Section A, the multiple-choice section, Q1 was on the role of financial markets. The vast majority could identify that this was to make funds available for individuals and business. This was the question candidates performed most well on in Section A.

The performance on Q2 was also strong and only marginally lower than in Q1. The vast majority were able to identify that the most likely reason consumers stay loyal to their insurance company was the result of habitual behaviour.

Q3 was the lowest mean score of the questions in Section A with less than half achieving the mark. The question tested the understanding of price elasticity of demand. Candidates needed to understand that the inelastic demand for railway tickets on Mexico City means that a decrease in the price of tickets would result in a decrease in revenue. The most common mistake was to select C, that the increases in the price of railway tickers in Monetrey will decrease total revenue when it will in fact increase revenue. D was also commonly selected but with no data on income elasticity this was impossible to deduce.

Q4 presented a diagram to illustrate a rightward shift of demand. Candidates performed well on this question, with approaching three-quarters able to successfully calculate the value of the PES at +1.82. Most that got it wrong identified A but the PES value is positive so a negative value cannot be the answer. Some selected C but here the formula for PES has been reversed so is incorrect.

For Q5 candidates tended to perform well with more than four-fifths gaining the mark. Most could identify that the smuggling was an example of Government failure.

Q6 illustrated a production possibility frontier and candidates needed to deduce that the movement from W to X resulted from improved efficiency. Just three/fifths could do this accurately. The majority that got this question wrong opted for B but the movement form X to Z has an opportunity cost in terms of consumer goods not capital goods as indicated.

In Section B, Q7 asked learners to draw a diagram to illustrate the impact of the introduction of a minimum price for rice in Myanmar. Nearly all could draw an original supply and demand diagram. Most could then add a minimum price above the equilibrium price. The marks often missed were for showing the quantity supplied and quantity demanded and for the excess supply. The most common mark achieved was full marks but fewer achieved this than in the previous January series.

Q8 explored a topic that was found to be challenging, moral hazard. Nearly all achieved the application mark for making reference to the difference in the percentage that accessed a dentist for those who were insured and not insured. There were some long attempts trying to define moral hazard but most did achieve the mark. Difficulty came in explaining why moral hazard resulted in those with insurance being more likely to visit the dentist. Better candidates made the point that they took less care for their teeth or more risk with their teeth and therefore needed to visit the dentist more often. The fact that they were insured means they know the insurance company will cover the costs of any visits. Candidates, on average, performed least well on this question with 60% scoring between zero and two marks.

Q9 asked for candidates to explain the difference between private benefits and external benefits. The majority could define the two concepts, external benefits most made reference to positive impacts on third parties. Candidates were asked to make reference to the information provided. Most could explain that the bees helping increase the production of sunflowers was the external benefit. Many missed out the example of private benefits, for example, that the honey produced by Tania could be sold to earn revenue.

Q10 required the calculation of the income elasticity of demand. Whilst most did write the income elasticity of demand definition or formula a surprising number wrote the PED formula down in error. Many students then put the values in the formula without calculating the percentage changes of quantity demanded and income. Some get the answer wrong and because the intermediate steps are not calculated they lose marks, often finishing with one or two marks. The question did still have the highest mean score.

Q11 The question looked at cross elasticity of demand. Most offered a written definition or formula for the first mark. Most could identify that the demand for milk would rise. Pleasingly a significant proportion calculated the percentage increase in demand. Candidates were much less likely to identify that the positive value of XED made the two goods substitutes.

Section C focused on the materials in the source booklet that related to the market for housing and public goods in New Zealand.

Q12a required a definition of market failure. Most could identify that it was where the market or price mechanism resulted in an inefficient allocation of resources. Although most focused on over-/ under- or mis-allocation of resources. A significant number used the example from Extract A in terms of a housing or market bubble or homelessness.

Q12b asked learners to analyse two reasons why house prices increased and required a diagram. Most could draw supply and demand and the original equilibrium for the first mark. Most correctly shifted demand to the right. A number also shifted supply which meant their final equilibrium was in the incorrect position and could not achieve the final knowledge mark. The second application mark was awarded for reference to the change in house price or actual house price. Nearly all could access both analysis marks by identifying two reasons. Most identified the increase in real incomes or lower interest rates. Immigration was the least popular answer to offer.

Q12c required an explanation as to why the supply of houses was price inelastic. Most defined price elasticity of supply which was not rewarded. It was price inelastic supply that needed defining. Many made reference to the PES being between 0 and 1. Others to the responsiveness of supply being smaller than the change in price. These marks though were much less likely to be achieved than the two application marks. Most could identify that there was a shortage of over 55 000 construction workers, paperwork being needed, local authorities limiting land for building to protect the environment or the Government only building 6 000 houses.

12d was an examine question that required two marks for evaluation. It was the latter element that was commonly omitted. The question was a challenge for many. Most could define public goods and make reference to both non-excludability and non-rivalry to gain two marks. To gain the analysis marks these concepts could be explained. The application marks were for reference to the national parks in New Zealand. The evaluation marks were typically awarded for how national parks had elements of rivalry or excludability.

The final question in section C, Q12e required a discussion of the likely microeconomic effects of a housing market bubble. Candidates could typically define a market bubble. Candidates could identify some potential positive or negative effects of the bubble. They could often make reference to relevant points from the context. Where responses were lacking was in analysis developing why and how they generated positive or negative effects. Evaluation was often limited although the common approach was to offer positive effects as KAA and negative effects as evaluation or vice versa.

Section D had a choice of two essays. Q13 was the more popular question on evaluating two possible measures that could be introduced to reduce the price consumers pay for energy. Q14 required an evaluation of the impact of the 400% increases in the cost of fertiliser on farmers and households. The mean score on Q13 was higher than for Q14.

The stem for Q13 identified three possible methods to help reduce the price including maximum prices, subsidies and reductions in indirect taxation. The subsidy approach was most commonly seen. The diagrams that just drew supply shifting to the right with the price fall and quantity rise were able to access Level 2. Better candidates included other aspects such as the size of the government spending or consumer or producer surplus and with supporting written analysis this was able to achieve Levels 3 and 4. Similarly analysis just focused on price and quantity often remained in Level 2 but going to look at the impact on consumer surplus, producer surplus and government revenue and how this affected economic agents often enabled achievement at the higher levels. The next most common policy considered was maximum prices. Once again diagrams were common. The best responses looked at how those that still had access to the good were better off but that many would struggle to access the good and would suffer. They also appreciated the negative impact on suppliers. They also appreciated the importance of accessing energy. The reduction in taxation was less commonly seen. Too many analysed this but looked at the introduction of a tax which was wrong. Once again when the impact on different economic agents was discussed the higher levels were often achieved.

Q14 Most were able to incorporate a diagram showing the increase in price and decrease in quantity. Better responses then used the diagram to help look at how households and farmers were affected. Better responses also appreciated that it was not only the impact on costs but also on likely future output that needed to be considered. Evaluation on this question tended to focus on the magnitude of the price rise of both fertiliser and food but also the fact that fertiliser prices may well come down reducing the impact in the long run.

Most learners were able to complete the paper in the time available. We did however see several unfinished or very brief essays suggesting that some students had not planned their time well.

The performance on individual questions is considered in the next section of the report. The feedback on each question shows how they were well answered and also how to improve further.

Section B, the short answer section, saw students able to access marks on most questions.

Q7, the minimum price diagrams saw mixed performance. Many could draw supply and demand and show the minimum price above the equilibrium price to gain half marks. A surprising number drew the minimum price below the equilibrium price in error. Once the minimum price is drawn it is important to draw the new quantity supplied and quantity demanded. Many did but often they focused on the new quantity demanded. The most commonly missed mark was to identify the excess supply. Some labelled this erroneously as excess demand. There is still a tendency to write a lot explaining what the diagram, shows but this is not required as 4 marks are awarded to the diagram. Some did pick up a mark in this as they identified the size of the excess supply.

Q8, identified a gap in the learning of many. Many were only able to explain the idea of moral hazard in terms of the costs of an action being borne by another party. There was a confusion here with information gaps for some. Application was also well done with many explicitly picking out the two percentages or the 20%-point difference between them. The ability to say that the insurance makes people care for their teeth less or eat more sweets and sugary drinks in the knowledge that any dentistry costs are borne by the insurance company was uncommon. Moral hazard is a certainly a topic that needs closer attention in teaching to ensure they can explain it in different scenarios. Insurance and banking are listed in the specification so it is important candidates can explain it in these contexts.

Q9, asked candidates to explain the difference between private benefits and external benefits. The definitions were generally well done. For external benefits most made reference to positive impacts on third parties and for private benefits positive impacts of those in the transaction. Most could explain that the bees helped increase Emiliana's output as the external benefit. It was surprising that so few gave the example of the private benefits. Those that did focused on revenues earned from Tania selling honey.

Q10, involved calculating income elasticity of demand. Information was provided about the values for average income and new car sales. Fewer erroneously including a percentage sign or negative sign with their value of income elasticity of demand. One approach now being commonly seen is to write the formula and then to put the intermediate calculations or formula without calculating the value of each stage. This meant the 2 marks for the calculation of the percentage change in income and percentage change in quantity demanded were frequently not awarded when an incorrect final answer was given. Candidates are asked to include workings so should do so comprehensively. Another common error was to calculate putting the formula the wrong way round. If the formula or definition were correct and the intermediate stages were correct then three marks could be achieved.

Q11, candidates had to explain the likely impact of the 5% increase in the price of sugar sweetened drinks on the market for milk. The knowledge mark was awarded for defining or providing the formula for cross elasticity of demand. The most common error was to put the formula for price elasticity of demand. Given that the value of the cross elasticity of demand of milk with respect to sugar-sweetened drinks was positive most correctly identified that the two goods were substitutes. A number identified them incorrectly as complements but these would have a negative value for cross elasticity of demand. Many calculated the percentage change in the quantity demanded. But too many were not explicit that this was an increase in demand for milk. It was uncommon but some did identify that the two goods were not close substitutes as the value was below 1 and fewer still identified that this meant the change in quantity demanded of milk was smaller than 5%. An alternative approach rarely seen was to draw a diagram to show the increase in demand in the market for milk. When doing this it is important to explicitly show this is the market for milk either by using a title or axis label e.g. Price or milk.

Section C, the Data Response section, it was the final part that caused most issues.

Q12a, required a definition of market failure. Some attempts just said that it was where the market fails which was not sufficient to gain credit. A common approach was to say that it is where there is excess supply or demand, this is not market failure but disequilibrium. The most common correct answers explained how the market or price mechanism resulted in a misallocation or inefficient allocation of resources. Others were credited for reference to over or under allocation. As in previous series the example of the market failure from Extract A was rewarded. In this case, the market bubble, housing bubble or homelessness.

Q12b, the question required analysis of why house prices increased. Candidates could normally draw an initial supply and demand curve with equilibrium price and quantity to gain the first mark. Most drew the demand curve shifted to the right for the second mark. For the final mark awarded to the diagram the candidates needed to show the final equilibrium. This was only awarded if only demand was shifted and not supply. To gain the second application mark candidates needed to make reference to the size of the change or new higher house price given in Extract A. The final two marks were awarded for reference to the two reasons. The increase in real income, increased immigration and lower interest rates were often all listed although only two were required.

Q12c, required candidates to explain why the supply of new houses is likely to be price inelastic. Two marks were awarded for knowledge of inelastic supply. Defining price elasticity of supply was not rewarded. They needed to define price inelastic supply. Most did this by making reference to the value of PES being between 0 and 1. Many explained that any percentage change in price will result in a smaller percentage change in quantity supplied. Another common approach was to draw an inelastic supply curve. Many struggled to pick up both of the knowledge marks. Application was impressive with nearly all were able to pick up both marks. This was most commonly awarded for the Government only building 6 000 houses, much paperwork being required to obtain planning permission, local authorities limiting the land on which houses can be built and the shortage of 55 000 construction workers.

Q12d, asked candidates to examine whether national parks in New Zealand were public goods. Most offered a definition of public goods and reference to non-excludability and non-rivalry gained a mark each. Most could also apply to national parks. Where candidates struggled was with the analysis marks, which required an explanation of why the national parks were non-excludable, non-rival or of the free rider problem. As an examine question there was a requirement for evaluation. Most commonly this focused on why the national parks might be private goods. This typically related to the parks being very busy in the summer and limited space or car parking. The other responses tended to focus on paying for activities such as a kayaking. This evaluation was well done by candidates.

Q12e required candidates to discuss the likely microeconomic effects of a housing market bubble. The knowledge of market bubbles was generally sound. Too many focused on the causes of a bubble rather than the effects. There was also good knowledge of market bubbles bursting and the likely effect of this. Many responses applied affectively using detail from within the extract. Where

responses were lacking was with analysis. Many were unable to explain why the effect happens or the impact of it. For example, many talked about the increase in homelessness without explaining why homelessness emerges and the problems that this generated. Many approached this from the perspective of positive effects of a bubble before it bursts and how people will benefit and then the negative effects when the market bubble bursts. One side of the argument was typically rewarded as knowledge, application and analysis and the other side as evaluation.

Section D, the essay section offered students the opportunity to choose between two questions. Learners were more likely to attempt Q13 than Q14.

Q13 required the evaluation of two measures that could be introduced to reduce the price consumer pay for energy. The stem offered them three options to choose from. A significant number talked about all three measures but in this case the best two measures were rewarded as per the question. Candidates were asked to produce a diagram in their answer. There was a not a requirement for a diagram for each measure although many did do this. When drawing diagrams it is important to note that simply showing the changes in supply, demand, price and quantity will tend to enable learners to access Level 2 but it is where other aspects such as area of subsidy, consumer and producer surplus is drawn and integrated into the accompanying write up that enable learners to move into Level 3 and 4. Subsidy was the most common measure discussed. A common mistake for those evaluating indirect tax was to consider an increase rather than a decrease in the rate. When this was the case there was very little credit gained. For maximum price a common error was drawing the maximum price above the equilibrium price. One approach to evaluation was to evaluate both policies simultaneously. This often resulted in weaker development. An example of this was to say setting the right rate was difficult as a result of information gaps. But the generic development weakened the argument. Better responses evaluated each policy in turn.

14 The less popular essay question. Candidates needed to evaluate the impact of the 400% increase in the costs of fertiliser on farmers and households. A common error was to only talk about one of the economic agents. It was pleasing that the majority did include the diagram, as requested. Whilst most correctly shifted the supply curve to the left and could explain the higher costs and corresponding higher price better students were able to explain how the use of less fertiliser will also affect yield.

Paper Summary

Based on their performance on this paper, students are offered the following advice:

Section A: Multiple Choice Questions

- The topic of price elasticity of demand and the impact of price changes on total revenue was a poorly performing question. More work on this will be helpful to candidates.
- The topic of production possibility frontiers and improved efficiency caused a substantial proportion a problem. Most mistakenly identified the movement from X to Z as having an opportunity cost in terms of capital goods when in fact it was consumer goods.

Section B: Short Answer Questions

- When asked to draw a minimum price diagram on Q7 it is important to mark the impact on quantity demanded and supplied as well as the excess supply.
- In Q8 many struggled with the concept of moral hazard. The definitions were generally fine and the application typically achieved but the analysis was often lacking. Candidates should practice explaining for the insurance and banking sector the impact of moral hazard.
- On Q10, when calculating the income elasticity of demand, it is helpful to calculate the intermediate stages that is the % change in quantity demanded and % change in income. When the final answer is incorrect these to calculation can gain two marks.

Section C: Data Response

- On Q12(b) when completing analyse questions where there is only a shift of one curve then an application mark is available for explicitly using the data.
- On Q12(d) when asked to examine whether national parks were public goods many could define but struggled to offer analysis as to why it had the properties of non-excludability and non-rivalry.
- On Q12(e) the topic of market bubbles clearly needs more attention in centres. Many struggled with the concept. Many also focused on causes rather than the effect.

Section D: Essay

- Diagrams should be drawn when requested and integrated into written analysis to explain what they show.
- Careful attention needs to be paid to instructions for example question 13 asked for two measures and question 14 asked for the effect on farmers and households.