Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel International A Level
In Economcs (WEC01)

Unit 1: Markets in Action

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Introduction

The performance on the multiple choice section was slightly below the performance in the previous October series. Candidates typically selected an answer and went on to offer an explanation for the answer was right or offered to explain the rejection of an alternative answer. Overall candidates performed similarly to previous January series on the data response questions. Question 9 was much more popular than question 10.

In the supported multiple choice section candidates were typically able to achieve marks for either definitions/ explanations or identifying the correct key with some explanation.

On the data response section question 9 was more popular than question 10. Approximately 75% of candidates attempted question 9 and 25% question 10. Candidates attempting question 9 outperformed those attempting question 10.

Diagrammatic analysis on the work from the better candidates was accurate and was integrated with their written analysis. So they would not only draw the diagram accurately but talk about what they learn from it in their written explanation. This enabled them to consistently achieve within the top level. This was particularly true for those drawing the subsidy diagram in question 10. They performed better when they made reference to the incidence, subsidy costs or consumer and producer surplus. On question 9 the externality diagram was required. Key to achieve level 3 was the explicit inclusion of the market equilibrium and social optimum and the welfare loss area. It was impressive the number that used their diagrams to explain the impact in their written analysis.

There were a significant number of superior responses which scored very high marks, particularly in the supported choice section of the paper and the 6 and 4 mark questions on the data response. A greater number of candidates also performed well on the 10 and 14 mark questions as more developed there analysis points and offered developed evaluation.

Most candidates were able to complete the paper in the time available though some struggled to develop their answers for questions requiring evaluation.

For some candidates we see unfinished or brief responses as student preparedness for the exams and time management was less good. It is important that candidates practise the unit 1 papers under timed conditions to strengthen exam skills. The performance on individual questions is considered in the next section of the report. The feedback on questions shows how questions were well answered and also on how to improve further.

Supported Multiple Choice

Most candidates were able to access marks on each question in this section of the paper. The mean score for the supported multiple choice questions was marginally below the previous October series. Those candidates achieving the top grade were able to use relevant diagrams to support their answers and the written responses were able to define effectively and explain the correct key.

The key way all candidates at every grade were able to access marks was being able to define the main concept in the question.
Those that went on to apply appropriate economic theory and analysis (usually awarded up to 2 marks) were those able to achieve the higher grades.

It is possible to achieve the full 3 explanation marks even when an incorrect option is selected. It was very rare this season to find a box not complete and very rare was the letter in the box different to the answer being justified.

Some candidates gained marks by using the rejection technique. Up to 3 marks are available for successfully eliminating 3 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 as to why it is wrong. Thankfully it is now rare for candidates to fail to identify the incorrect option key. A significant number were using the rejection mark to achieve their last mark on these questions. When rejecting it is important that candidates explain why it is not the correct answer.

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, diagrammatic analysis and eliminating one or more incorrect answers.

Section B: data response questions

The data response questions have a substantial weighting for evaluation marks (16 out of 48 marks). Consequently, it is vital that candidates make evaluative comments when required by the question. The 14 mark question comprises 6 evaluation marks and a 10 mark question comprises 4 evaluation marks. To achieve the higher levels they will need to not only identify evaluative points but develop them to explain their point. To reach level 3 these points must be less generic and more in the context of the question. There was a significant improvement in the numbers evaluating with both development and context.

Approximately 75% of candidates selected question 9 and 25% completed question 10. Students performed marginally better on question 9 than question 10.

Question 9 related to the markets for fruit and vegetables. Question 10 related to labour markets.

Question 1
The majority of candidates successfully defined the free market economy or price mechanism. There was only one knowledge mark available to defining either of these concepts and 1 mark for both. Many were able to explain that the lower price leads to decreased production but key was the need to link that it is reduced profitability that creates the incentive to decrease production. Many rejected D by making reference to there being no government intervention in a free market economy. Many rejected C by making reference to the act that the lower price would signal to producers to decrease production not increase as less profit would be generated.

Question 2
The vast majority defied the production possibility frontier or opportunity costs to gain the knowledge mark available. Again many defined both but only one mark could be achieved for defining only. A significant number identified the correct key. Better answers included the calculation of opportunity costs (i.e. 100-50=50). A significant number rejected D by making reference to the fact the gain is 30 and the opportunity costs is in fact 40.

Question 3
Most understood that the imposition of the indirect tax will lead to supply shifting left. However, a very significant number selected B as their answer which was wrong. B indicates a specific tax but the 10% indicated showed that it was ad valorem. A was therefore the correct answer. Those that achieved full marks here identified it as ad valorem and spoke about it pivoting. Nearly every candidate could define indirect tax for a mark. Many rejected C by making reference to this being a diagram to show a subsidy or reduction in tax.

Question 4
Most successfully defined division of labour. Fewer explained that with workers needing to be trained on fewer tasks they will spend less time in training. The very best responses made reference to an example from manufacturing as indicated in the stem. The rejection on B was common with many making reference to the job becoming monotonous with the repetition of tasks. Some better responses rejected A by making reference to workers not changing tools enabling output per worker to improve.

Question 5
This question saw candidates perform well. Most defined rational behaviour. They explained how the saving can be used to gain utility from other goods. Commonly candidates rejected A by making reference to the fact that habitual behaviour would lead to customers remaining and not switching. Similarly in rejecting B they made it clear that consumers would not want

the hassle of switching providers and would remain with their more expensive provider.

Question 6
Most defined cross elasticity of demand to access the first mark. Most could identify that a negative XED would make products complements. They explained that if the price of cricket bats rose the less would less of both cricket bats and balls. Many rejected A or B by making reference to them being substitutes. Is important that they explain why in that people would replace one with the other as price of one rose. Many rejected C by making reference to them being unrelated goods.

Question 7
Most could define maximum price here and for many this was the only mark they accessed. The question referred to an increase in the maximum price and this was often missed in the analysis offered by candidates and they often selected the wrong answer. The best responses drew a diagram showing the maximum price rising and the size of the excess demand falling in support of B.

Question 8
The best responses defined government failure. They explained that this is an unintended consequence and made reference to the lost government tax revenue. Many rejected B successfully by showing how the indirect tax would increase the price. Many also rejected D explaining that this government failure not market failure as it relates to government intervention.

Question 9

Part a
The best responses defined the price elasticity of demand. They then used the given PED OF -0.79 to calculate the impact on quantity of the 8% price change. It was important to show that quantity demanded would fall in response to the rise in price. Where candidates did not calculate the change they could access marks in a number of ways. Many did by explaining that the PED is relatively inelastic. Better responses explained that the change in quantity would be proportionately smaller than the change in price. Some drew an inelastic demand curve showing the impact on price and quantity.

Part b
There was one mark available for a supply factor and one mark available for a demand factor. Many offered multiple supply factors without making reference to demand factors. Where they did this they only picked up one out of the two marks for the factors. There were four marks allocated to the diagram. Most candidates did draw the original equilibrium and shifted the supply curve to the left. This would access two marks. Where they shifted demand and added the final equilibrium with both supply and demand shifted they were able to access full marks for the diagram.

Part c

The question looked at discussing the impact of an increases in the price of vegetables on food manufacturers. Better responses made explicit reference to the actual price rises of the vegetables from the extract. They then looked at how this adds to the costs of the manufacturers causing a reduction in supply. They looked at how this caused a price rise and quantity fall. The manufacturers will see producer revenue fall and producer surplus/ profit fall. Some will look at how producers may use cheaper substitutes or less vegetables.

Evaluation was often offered and there was some good development. Many looked at how it depends on the proportion of costs that go on vegetables. Others considered the magnitude in terms of the large increase in costs. Many looked at how in the short term this could be a problem but prices should fall when there is better weather in the long term.

Part d

The question looked at external costs of farmers switching from meat production to vegetable production. Most offered a definition of external costs and how it could be more harmful to the environment than consuming meat. Many responses used the extract to identify negative economic impacts. They made reference to lettuce being three times worse for producing greenhouse gas emissions than eating bacon with higher energy costs, water use and emissions. Lettuce uses a lot of water and energy to produce. Better responses look at how more energy use will increase power production including use of fossil fuels which will contribute to pollution/ carbon emissions. It was the link to how more water use causing problems for water companies/ leaves less water for other parts of the economy. Level 3 responses will explain how third parties are negatively affected. Many candidates offered a diagram and when they referred to the welfare loss, market equilibrium and social optimum and integrated the diagram in their analysis they often accessed level 3.

For evaluation many referred to measurement issues in difficulties to measure the size of the external costs. Many looked at the time period and how it may take time for the build-up of external costs. A common response looked at how vegetables are likely to generate health benefits and lead to less need for healthcare, thus resulting in external benefits. Similarly they looked at more output meaning more revenue earned by farmers.

Part e

The question looked at evaluating the introduction of an indirect tax on junk food. Most could accurately define indirect taxes. Best responses looked at the impact of producers, consumers and the government. When looking at the producers of junk food most looked at the increases in the costs of producers, which reduces the supply of junk food as indirect tax reduces profits. This increases the price and decreased producer surplus. Better responses linked to external costs producer incidence of the tax and how producers might substitute to lower fat/ sugar/ salt alternatives.

When considering the consumers of junk food many looked at how the increased prices would make junk food less affordable. They looked at how this would see less quantity consumed and how this might lead to health

benefits if they substitute to fruit/ vegetables and how they will have less health issues such as diabetes and obesity. Reference was often made to decreased consumer surplus and better responses looked at the impact on the consumer incidence of the tax.

Candidates were able to explain that the government earns revenue from the tax and how the government can use this to generate a fund to help tackle obesity in schools/sports. Better responses looked at how less money will be needed to tackle obesity and diabetes if consumption of junk food fell.

The explicit reference to data includes 500 000 extra years of healthy life to Australia's population of 23 million of the tax and subsidy changes. They may also make reference to more than AUD$3 billion in healthcare costs over the remaining lifetimes of all Australians alive today.

The evaluation offered looked at the magnitude in terms of the size of the tax. Many looked at the likely incidence of the indirect tax which depends on the elasticity of demand. Better responses linked explicitly to the data making reference to Hungary where taxes had a small impact and in Mexico where daily soft drink consumption fell 12 millilitres per person in the first 12 months.

Question 10

Part a
Candidates tended to perform well on this question. Most could define normative and positive statements. Most identified the relevant title. Other explained what aspect of the title made it normative or positive. For example reference to should being a value judgement making it normative. The question specifically asked for reference to the titles and may referred to the contents of the extract, which was not rewarded.

Part b
The next question was found to be more challenging and looked at how automation and robots might affect the labour market for workers in the customer service industry. There was a mark available for reference to the Extract. Many picked up many of the points but could only gain one mark. Those candidates able to achieve the higher grade were able to look at how labour and capital/ robots/ machines are substitutes and how as demand for capital rises the demand for labour will fall gained a higher score on this question. A few candidates linked to labour as a derived demand. The diagram showing an original equilibrium wage and employment/ quantity of labour and the relevant shift of demand for labour to the left and the new equilibrium showing lower wage and lower employment. When offered this often achieved the 3 marks allocated to the diagram.

Part c
The 10 mark question asked candidates to discuss the impact of retraining programmes on the immobility of labour in the USA. Nearly all were able to

define the immobility of labour with many looking specifically ay occupational immobility of labour. Most were able to apply to the context linking to how workers in the customer service industry are likely to be replaced by machines/ robots. They considered how they may lack the skills to move to other sectors that require labour

Better responses looked at retraining schemes and how these will help workers develop new skills. They considered how the new skills will enable workers to transfer to new industries where demand for labour remains thus, reducing the occupational immobility of labour. It was rare to see but some sophisticated responses linked the increased skills to how it may also make workers more geographically mobile as they will be able to access more jobs in more places.

Evaluation tended to be weaker on this question. Those that did offer it focused on opportunity costs and how spending money on retraining rather than other areas in economy. Many looked at how retraining will not help with geographical immobility. It was less common to see evaluation considering time in terms of it taking some time before governments can start the scheme. Magnitude was considered typically looking at the numbers involved in retraining.

Part d

The question required candidates to evaluate the reasons why prospective Filipino students are under-investing in education. There were many areas that candidates could discuss but many of the responses were narrow. Definitions tended to focus on information gaps and external benefits. Many used the extract to consider how prospective Filipino students are considering the benefits and costs to themselves but not taking into account benefits to third parties and how they are ignoring external benefits- benefits to third parties Better responses used examples such as employers benefiting from more skilled labour, governments benefiting from higher tax revenue as employers are more productive and would earn more. Better responses considered how ignoring these benefits to others society may find that there is less investment in education.

Other responses focused on information failure and considered that prospective students are unware of the likely returns of the education and how the degree will benefit them. Others considered how imperfect market information means people lack information about the benefits of education developed responses looked at how this underestimate of the private benefits may also lead to under investment.

Some strong responses included a diagram to show external benefits which included welfare loss and under-consumption compared to social optimum. To achieve level 3 these diagrams were integrated in to the written analysis.

The evaluation offered was typically under developed but there were some better responses that developed their points in context. These focused on magnitude which typically considered how it depends on the size of the external benefits or the size of the information failure. Many looked at how there was a measurement problem as it is hard to quantify costs/ benefits of education. A rarely offered evaluation point identified that this may not

be market failure but rational decisions based on high costs of tuition and cost of living whilst studying

Part e
This 14 mark question asked candidates to evaluate the impact of the $298 million subsidy to state universities and colleges. There was some sound economic analysis looking generically at the imposition of a subsidy but to move to level 3 it was the application to context which was key.
The diagrams were typically accurately drawn showing the supply shifting to the right. It was less common to see the size of the government spending on the subsidy or the incidence of the subsidy. It was the latter which was integrated with the analysis that accessed level three.
Most defined a subsidy and explained how this lowered the private costs experienced by consumers and how for SUCs it will lower their costs of production. They looked at how this would impact upon increasing supply, decreasing price, increasing quantity accessing university, adding to the cost for the government. Better responses then considered the producer subsidy and consumer subsidy and or looked at consumer surplus and producer surplus. Many also looked at how this would reduce welfare losses from under consumption.
The evaluation tended to be better developed on this question. Most considered the magnitude and how $298million should make a big difference. Many considered how it could be a long time before this policy makes a difference. Better responses considered how the subsidy will not be dependent on income so all will receive it- even those that can afford it anyway which is not an efficient allocation of government resources.

Paper summary

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

Section A: supported multiple choice

• Define accurately the key economic term(s) used in each question.
• You will often find definitions alone are awarded one mark and only occasionally two marks. Candidates should not spend too much time defining only.
• When diagrams are provided avoid wasting time by redrawing the diagram from scratch.
• Be prepared to draw diagrams when relevant to the question and make sure these are properly labelled and explained in the text. On question 7, it really helped the response when the diagram was offered.
• Always refer to the information provided, for example calculate the opportunity costs and including this in the response on question 2.
• Make sure 'value is added' to answers which use the rejection method. Do not simply state that a particular option is incorrect without explaining why this is the case.
• Candidates were often unable to recognise that the imposition of a 10% indirect tax meant it was ad valorem. Others could identify this as ad valorem but did not realise that this pivots.

• With maximum price it is important that candidates know that the maximum price needed to go below the equilibrium price. With question 7 the maximum price increases so excess demand falls but many were unable to identify this.
• With question 5 on rational behaviour many saw the style of question as similar to those that looked at why consumers do not switch but importantly this question was looking at why consumers would switch. This meant a significant number incorrectly identified A to C.

Section B: data response

• Focus on developing economic analysis in the high mark base questions. Quite often candidates moved from definitions and a brief explanation of an economic issue straight into evaluation. This was evident in 14 mark questions. Economic analysis typically involves explaining the sequence of events leading up to a particular outcome.
• Where candidates are asked to refer to a concept in a question it is important they do not just define it but attempt to use it to analyse and evaluate.
• Where diagrams are requested these should be drawn as they will be well rewarded- do be careful with the accuracy of these.
• Where diagrams are not requested but it helps with your analysis then they should be encouraged.
• Diagrams that add detail such as referring to welfare loss, incidence, revenue or surpluses were able access the higher levels.
• Diagrams did best when integrated in to analysis when the points on the diagram are explicitly referred to.
• Candidates need to consider the mark allocations where 14 marks are available 6 marks will be for evaluation and students should be encouraged to develop at least 2 and possibly 3 evaluation points. Similarly a 10 marker will require 2 evaluation points for 4 marks.
• Having identified externalities from extracts it is important to explain how they affect the third party.
• When explaining the price change it is important to check whether supply and demand change. Only shifting one means they could only achieve two marks.
• When producing labour market diagrams it is important to include wages on the y axis and employment or quantity of labour on the x axis.