Examiners' Report

Principal Examiner Feedback

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Pearson Edexcel International IAS in Economics (WEC01)
Unit 1 Markets in Action

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Introduction

The performance on the multiple choice section was slightly above the performance in the previous January series. Candidates typically selected an answer and went on to offer an explanation for why the answer was right or offered to explain the rejection of an alternative answer. Overall candidates performed better compared to the previous January series on the data response questions.

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 63% of candidates attempted question 9 and 37% 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 external costs diagram to show the impact of reduced external costs in question 9. The maximum wage diagram would clearly be used to identify the shortage of labour. On the subsidy diagram did better when they made reference to the incidence or subsidy costs. 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.

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 above the previous January 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 63% of candidates selected question 9 and 37% completed question 10. Students performed marginally better on question 9 than question 10.

Question 9 related to coal mining and the labour market. Question 10 related to the market for copper, relocation subsidies and the impact of net migration.

Question 1

The majority of candidates successfully defined indirect taxation. A common way to access marks was to identify the areas of consumer incidence and producer incidence. Some of the strongest candidates identified this as a specific tax. Many identified the area of the government revenue but this mark was also awarded in selecting the correct key so was not awarded any marks. Many rejected D by making reference to there being no government intervention in a free market economy. Many rejected C by identifying that this was consumer incidence and D by explaining that this was producer incidence.

Question 2

The question looked at why people do not switch bank accounts despite possible savings. The majority correctly identified A. Inertia was often defined accurately with reference to people being unchanged or lacking the motivation to switch. A common area was to offer the definition of habitual behaviour as some seem to confuse the two. Centres would be advised to emphasise the difference between inertia and habitual behaviour. It was common to define rational or irrational behaviour. There were some good responses that looked at why people are inert. They talked about it being time consuming, the difficulty in organising the transfer of funds and the effort required to search for the better deal. Many successfully rejected an option. B was rejected by making reference to that if people were good at computation they would work out they can save £200 and switch bank accounts. C was often rejected by making it clear that if under-valued then people would switch to banks who would value them more.

Question 3

Candidates typically performed well on this question. They could normally define public goods accurately and it was pleasing the number that could explain the concept of the free rider effect and how this makes it difficult for private sector firms to generate a profit. Marks were commonly achieved by offering an example of public goods. The attempts by candidates to reject responses was often not rewarded. It was not sufficient to reject C by stating that public goods are non-excludable or D by stating that public goods are non-rival. Key was a need to explain why is was non-excludable or non-rival.

Question 4

This question was a challenge for some. Some were able to do the maths but not go much beyond this in explaining the concept of diminishing marginal utility. Marginal utility was usually well understood. Diminishing marginal utility was not

well understood. Most candidates explained that when diminishing marginal utility is experienced utility falls as the number of units consumed increases. This is not correct. Diminishing marginal utility is where the additional unit of consumption leads to a reduction in the rate of increase in utility. Put another way the marginal utility is decreasing. A common error in filling in the marginal utility column was to calculate the average utility rather than marginal.

Question 5
This question saw candidates perform well. Most defined consumer surplus accurately. Most then explained with rising global consumption demand for butter will increase. The diagram was typically drawn to show demand shifting right and most attempted to identify the original and new consumer surplus. One common error was to confuse consumer and producer surplus. Rejection was attempted to explain how they would cause consumer surplus to fall. For example the removal would shift supply to the left and result in lower consumer surplus as the price rises. Many rejected D by explaining that consumers switching the margarine would result in lower demand for butter and consumer surplus would fall.

Question 6
The question considered why consumers do not always take out travel insurance despite the risk of substantial medical costs. Most defined either asymmetric information or imperfect information. Most commonly candidates explained that if people knew the medical costs they would insure themselves. B was commonly rejected by making reference to the opportunity costs that exist in that the money could be spent on hotels or restaurants. C was often rejected by making reference to lower taxes leading to lower prices and attracting more to consume.

Question 7
The question tested government failure. It should be remembered when defining government failure reference should be made to a net welfare loss. The very best responses considered that this regulation led to unintended consequences in terms of firms dumping waste. They considered also that the government was intended to correct a market failure in terms of external costs but that the result was further external costs.

Question 8
Most candidates were able to define buffer stock. Better candidates were able to identify that the most rev=cent crop represents a bad harvest. They also made it clear that the sale of the crop is taken from its stockpile. Better responses referred to how much was released and how much revenue is earned by the government. Many rejected B y explaining that if they bought the product the price would increase further.

Question 9

Part a

It was pleasing to see so many candidates identify that the demand for labour was derived from the demand for the final product in identifying that derived demand existed. Most candidates did apply to the Extract in that there was a decline in demand causes by economic growth slowing and China moving from manufacturing to a service based economy. Pleasingly the majority of candidates did clearly draw a labour market diagram with wages on the y axis. A small number still drew a product market diagram failing to show the change in wages and were not rewarded, this could cost up to 3 marks. Most successfully shifted demand to the left and marked on both the original and new equilibrium. The explicit reference to employment falling from 488 000 to 359 000 was also commonly rewarded.

Part b

Candidates performed well on this question. Most could define occupational immobility of labour by referring to people inability to move between locations. The definition of geographical immobility was less often accurately defined. Many stated that it was an inability to move between locations. This was not precise enough as they needed to make reference about being able to move between locations for employment. The application for occupational immobility talked about the miners not having the transferable skills to move employment. Application for geographical immobility tended to focus on 7.4 m being unemployed at the same time as 27.5% of vacancies being unfilled in the USA.

Part c

Whilst most could define external costs and outline the external costs from the extract it was important that they analysed the impact of reducing production. Many did some sound analysis but failed to put it in the context of the question by talking about the reduction. It was also pleasing that candidates were commonly explaining who the third party affected was and how they were affected. Many considered the reduced pollution and how it would reduce the health issues and costs of healthcare. Fewer were able to look at how businesses would benefit from lower absenteeism and higher productivity.

The evaluation offered was often generic. Most considered the magnitude but needed to apply to the size of the reduction in coal mining. Similarly others looked at measurements but needed to look at the difficulty in measuring the benefit in terms of lower health care costs and higher productivity. It was common to look at the time period and how it will take time for the pollution levels to fall. Many looked at the benefits associated with coal mining such as employment with the best responses developing these in context.

Part d

The question looked at the impact of relocation subsides. Most could define subsidies with better candidates defining more specifically relocation subsidies. When candidates linked the subsidy to lowering costs of moving and encouraging

people to relocate they performed well. Many offered a diagram which was rewarded.

Better responses analysed how this would support relocating in terms of covering transport and housing costs. They then considered how people could move to where vacancies exist, reducing unemployment and filling the 27.5% of unfilled vacancies.

Many made the explicit connection to reducing the geographical immobility of labour. It was common for people to talk about how what the government saved in lower unemployment benefit payments would cover the costs of the subsidy.

Evaluation again was often more generic. Most could talk about the magnitude issue in terms of how much the subsidy was but better responses looked at the substantial housing costs and transport costs that might need covering. Many looked at family and friend ties that would limit the number relocating.

Part e
This question tested the likely impact of the introduction of a maximum wage. Unfortunately a number explored the impact of a minimum wage and gained little credit except for where they made reference to relevant points from the extract. Maximum wage was often defined and typically a diagram was used to illustrate the wage below the equilibrium. The better responses could clearly identify this was a shortage/ excess demand. Some confused this as an indication of unemployment existing. Better responses used their diagram in the written explanation to illustrate the extending demand and contracting supply of labour as wage fall.

There was some good use of the data in the Extract. Many looking at the narrowing gap between rich and poor and the likely lost income tax revenue. They also looked at the likely brain drain if they can now earn more abroad.

Evaluation often focused on the magnitude and about how low the maximum wage would go dictating the size of the impact. Often they considered how those affected might be able to make up lost income in other ways, such as sponsorship.

Question 10

Part a
Candidates mostly drew the diagram accurately to show demand rise, the original and new equilibrium. This enabled them to achieve 3 marks. In terms of reference to the data a smaller number made reference to an explicit price that copper increased to. Many made reference to improved growth in China. Fewer referred to China restricting the recycled copper which increased demand for mined copper.

Part b
Most were able to define price elasticity of demand and price inelastic accurately to access two marks. It was impressive the numbers that were able to pick out relevant information in the data. For example the lack of substitutes and the costs

and delays in switching to alternative. It was common for candidates to struggle to achieve the final mark. This was often because they could not explain why the factor made demand inelastic.

Part c
This 10 mark question looked at the likely price elatsicity of supply. Most could define price elasticity of supply, elastic and inelastic. Most referred to information in the data. Many looked at the fact the supply of copper is unresponsive to price movements in the short term to suggest inelastic. Many referred to the high fixed costs and lengthy start-up time to set up a new mine again suggesting inelastic. Others considered how stocks could be used to meet demand suggesting elastic. In some cases this latter point was offered as evaluation.
Evaluation often focused on the fact elatsicity become more elastic over time and factors of production can be adjusted. Others considered how the magnitude of any price change will determine how quickly supply will adjust.

Part d
The question looked at the likely impact of the subsidy paid to Foxconn. Most could define a subsidy, link this to the lowering costs and increased supply. Many offered a diagram and used this in their write up to analyse the impact. It was common to pick up that the subsidy led to a larger investment in the region. They commented on the increased employment, both directly and indirectly. Some were able to discuss the external costs linked to environmental damage.
Evaluation was often weaker but focused on the fact any externa; costs will be compensated by the requirement to replace damaged wetland. Others focused on the magnitude of the subsidy being likely to boost output. It was also common to see reference to measuring any external costs. Others also considered external benefits.

Part e
The question was more challenging for students. Most understood that the net migration figures show more leaving then entering the region. Many did well by explicitly identifying that 17 000 more left than arrived. Many explained that the demand for housing would fall with a lower population. They typically drew the diagram. Most explained that the price and quantity fell. Better responses were able to look at the impact on consumer surplus, producer surplus and revenue for construction firms.
The evaluation once again commonly considered magnitude, some linked to the Foxconn investment which may reverse the trend. The evaluation generally was weaker than on other questions.

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.
• Always refer to the information provided explicitly, it is better to refer to specific numbers, for example prices of number employed etc.
• 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.
• On question 2 candidates must be able to distinguish between inertia and habitual behaviour as many are confusing them as the same thing. Inertia is about inaction, habitual behaviour about loyalty.
• Ensure students practice calculating marginal utility. Many could not do this and calculated average utility on question 4.
• It is important to emphasise that diminishing marginal utility is not where utility decreases but where the rate of increase slows.

Section B: data response

• Focus on developing economic analysis in the high mark base questions. A number of 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 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 to 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 who is affected and how they affect the third party.
• 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.

• Geographical immobility needs candidates to not only identify that people do not want to move location but that they don't want to move location for employment.
• Maximum wage was commonly confused with minimum wage. Be careful to read the question carefully to ensure the right one is analysed. Remember with maximum wage the outcome is a shortage and not unemployment.
• The net migration question needed them to look at the impact on the housing market and a number focused on the impact on the labour market. Again be careful in reading the question.