

Mark Scheme (RESULTS)

January 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
Number 1	Answer B (1 mark) Explanation (up to 3 marks) Definition of indirect tax – e.g. expenditure tax/tax on goods and services/tax paid via third parties (1) Identification of specific tax/Definition of specific tax- per unit tax (1)	
	 The tax per unit is XY or UV or P₀P₁(1) Tax revenue is found by multiplying 0Q1xP0P1 or Q₁xP₀P₁(1) Producer incidence/ burden of tax is PP₀VW (1) Consumer incidence/ burden of tax is PP₁UW (1) 	
	 N.B. Producer incidence or consumer incidence may be annotated on diagram. Rejection marks Do not double award Option A: incorrect as this is the area of consumer surplus that is lost (1) Option C: incorrect as PP₁UW is the consumer incidence (1) Option C: incorrect as P₀PWV is the producer incidence (1) 	(4)

Question Answer Mark Number	
Explanation (up to 3 marks) • Definition of inertia- where consumers do not have the motivation to switch/choose to do nothing or remain unchanged/cannot be bothered/people are too lazy (1) • Rational behaviour is where consumers maximise their utility OR Irrational behaviour is where consumers do not maximise their utility (1) • Rational consumers would switch to achieve a higher return/rate of interest OR Irrational consumers would not switch to achieve a higher interest rate/remain with their current bank and earn low interest (1) • To switch, customers would have to find the best deal/ the process of switching is time consuming/ spend time completing applications/organise transfer of funds which they will not like (1)	4)

Question Number	Mark	
3	Answer B (1 mark) Explanation (up to 3 marks) Definition of public goods- goods that are non-rival and non-excludable (1) As the goods are non-excludable people	
	 will free ride the products/ the free rider problem exists as firms cannot exclude customers (1) Private sector firms will find it difficult to charge customers (1) so it is difficult to generate a profit so they will underprovide (1) Examples of public goods include- street lighting, flood defences, lighthouses. (1) 	
	Rejection marks Do not double award	
	 Option A: incorrect as non-provision/under-provision of public goods is a market failure (1) Option C: incorrect as public goods are non-excludable as when one person consumes you cannot prevent another from doing so. (1) 	
	 Option D: incorrect as public goods are non- rival as one person's consumption does not affect the consumption by another (1) 	(4)

Question Number	Answer			Mark
4	 Answer C (1 mark) Explanation (up to 3 marks) Definition of diminishing marginal utility- where consumption of additional units the marginal utility falls/ as consumption increases the extra utility decreases OR Definition of marginal utility – the extra utility gained from consuming an additional unit of a good (1) 			
	 units consume for calculating diminishing m for explaining fall from 12 to 	the marginal uti arginal utility (1	lity to show) here MU starts to marginal	
	 Rejection marks Do not double award Option A: incorrect as marginal utility is 10 as utility is changing from zero (1) Option B: incorrect as utility increases at a faster rate moving from 10 to 12 (1) Option D: incorrect as utility is diminishing but started diminishing earlier (1) 		ol utility is 10 as l) ocreases at a 12 (1)	(4)

Question Number	Answer	Mark
5	Answer C (1 mark)	
	 Explanation (up to 3 marks) Definition of consumer surplus- the difference between the price consumers pay and the price they are willing to pay/the area underneath the demand curve and above the equilibrium price (1) If global consumption increases demand for butter increases OR Draws demand curve on diagram (1) Consumer surplus increases from ABP to CEP₁ (1) May be annotated on diagram. 	
	Price of C butter per kg A P1 P Q Q1 Quantity of butter (kg)	
	 Rejection marks Do not double award Option A: incorrect as the removal of a subsidy would reduce supply and decrease consumer surplus (1) Option B: incorrect as rising costs of milk would reduce supply and decrease consumer surplus (1) Option D: incorrect as if consumers switched to margarine then demand for butter would 	(4)
	fall and consumer surplus would decrease (1)	

Question Number	Answer	Mark
6	 Answer A (1 mark) Explanation (up to 3 marks) Definition of asymmetric information- where one economic agent has more information than another OR Definition of imperfect information – where economic agents do not have full information (1) If consumers know the medical costs they would insure (1) It is likely that travellers are unaware of these medical costs / they ignore these risks (1) This leads to an under-consumption of insurance (1) and is market failure as it an inefficient allocation of resources (1) 	
	 Rejection marks Do not double award Option B: incorrect as opportunity costs do exist as the money spent on travel insurance could be spent on other goods (1) Option C: incorrect as reducing taxes would lead to higher quantity consumed and see more buying travel insurance (1) Option D: incorrect as geographical immobility relates to people moving location for employment (1) 	(4)

Answer	Mark
 Answer D (1 mark) Explanation (up to 3 marks) Definition of government failure- where government intervention leads to a net welfare loss (1) Environmental policies aim to reduce external costs from chemical production (1) Due to the costs associated with disposing of waste an unintended consequence is that firms would dump chemicals (1) The dumping causes a significant external cost as those nearby the dumped chemicals can be put at risk of health problems (1) 	
 Rejection marks Do not double award Option A: incorrect as positive externalities are where third parties are positively affected but the dumping does not lead to this (1) Option B: incorrect as the free rider problem related to public goods and these chemicals are private goods (1) Option C: incorrect as it is likely to cause a net welfare loss (1) 	(4)
	Answer D (1 mark) Explanation (up to 3 marks) Definition of government failure- where government intervention leads to a net welfare loss (1) Environmental policies aim to reduce external costs from chemical production (1) Due to the costs associated with disposing of waste an unintended consequence is that firms would dump chemicals (1) The dumping causes a significant external cost as those nearby the dumped chemicals can be put at risk of health problems (1) Rejection marks Do not double award Option A: incorrect as positive externalities are where third parties are positively affected but the dumping does not lead to this (1) Option B: incorrect as the free rider problem related to public goods and these chemicals are private goods (1) Option C: incorrect as it is likely to cause a

Question Number	Answer	Mark
8	 Answer C (1 mark) Explanation (up to 3 marks) Definition of buffer stock scheme- where the government buys and sells stock to maintain price between a floor and ceiling price (1) In 2018 there is a smaller harvest / poor harvest/ the price rises above P₂/ the price ceiling (1) So to lower the price back to the ceiling the government will sell from its stockpile (1) KL must be released to prevent price rising above the ceiling/ Q₃Q₂ is released (1) The equilibrium shifts to L after the Government sells from the stockpile (1) 	
	 Rejection marks Do not double award Option A: incorrect as the harvest is poor and the price rises above the ceiling (1) Option B: incorrect as if the government bought rice then the price would rise further above the ceiling (1) Option D: incorrect as there is no reason to adjust the minimum (floor) price (1) 	(4)

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	Answer	Mark
9(a)	Knowledge, application and analysis (up to 6 marks)	
	 Demand for labour in coal mining derived from the demand for coal (1) Decline in demand caused by economic growth slowing/ China moved from manufacturing-based to service based economy (1) Original equilibrium (1) Shift in demand for labour (1) New equilibrium (1) Wage rates fall and employment falls (1) Employment falls from 488 000 in 2008 to 359 000 in 2015 (1) 	
	N ₁ N Employment of coal miners	(6)
		(0)

Question Number	Answer	Mark
9(b)	Knowledge, application (Up to 4 marks):	
	 Knowledge (2 marks): Define occupational immobility of labour- where people are unable or unwilling to move between occupations (1) 	
	Define geographical immobility of labour- where people are unable or unwilling to move between locations for employment (1)	
	 Application (2 marks): Occupational immobility- miners lack transferable skills or resources to retrain (1) 	
	 Geographical immobility- 7.4 million unemployed in the USA. At the same time 27.5% of unfilled job vacancies/ people are unwilling to move due to family and friend ties (1) 	(4)

Question Number	Answer		Mark
9(c)			(10)
Knowledge,	applicati	on and analysis – indicative content	
	• D the second of the second o	refine external costs – negative impacts on hird parties refore the slowdown coal mining had aused significant pollution - this impacts hird parties in terms of individuals and usinesses within area. With lower output of coal pollution will fall. This had impacts on the health of people wing in areas with high levels of pollutionis has negative impact on their health and dds to the costs of healthcare. With lower collution health care costs will fall. The pollution has an impact on the health of rorkers also affected firms who found rorkers to be less productive and absent more often- firm may lose profits with lower evels of output. With less coal mining rorkers will be less likely to be absent and more productive riagram may be offered showing lower utput and the size of the external costs alling	
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-2	Shows some awareness of external costs. It may be offered and inaccurate. Material presented is often irrelevant and lead organisation. Frequent punctuation and/or errors are likely to be present and the writing generally unclear.	acks grammar ing is
2	3-4 Understanding of external costs in the context of mining. 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 external costs in th mining. This may be supported by an accudiagram which is explained and applied eff Material is presented in a relevant and logi Some punctuation and/or grammar errors found, but the writing has overall clarity ar	rately labelled ectively. cal way. may be

Evaluation -	- indicative content			
	_	nitude – depends on the level of reduction in mining		
		easurement issue- measuring the change in ternal costs is difficult		
		Time period: may take time for pollution levels, and health to improve		
	emp	Il mining comes with benefits in terms of ployment, providing power to keep businesses ductive/ mining employment falls		
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	Answer	Mark		
Number 9(d)			(14)	
	applicati	on and analysis – indicative content	(=+)	
- momeage,	• Defir	nition of relocation subsidy- cash grant paid to nployed to move location		
	• Diagi subs			
	• Subs			
	• Enco	Encourages more to move location		
	 This will help cover the transport costs and housing costs of moving location This will add to the costs of the Government By moving people to where jobs exist the need to pay unemployment benefits will fall 7.4 million unemployed in the USA will help move number into employment 27.5% unfilled vacancies can be reduced Geographical immobility of labour will be reduced Candidates may present benefits or problems as KAA and offer alternative perspective as evaluation 			
Laval	Maulia	Descriptor		
Level	Marks	Descriptor		
1	1-3	A completely inaccurate response. Shows some awareness of relocation subsidies information presented is often irrelevant and longanisation. Frequent punctuation and/or graderrors are likely to be present and the writing generally unclear.	acks ımmar	
2	4-6 Understanding of the relocation subsidy. This will be supported by an accurate diagram. Material is presented with some relevance but there a likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect the clarity and coherence.		there are sation. to be	
3	7-8	Clear understanding of the relocation subsidy. be supported by an accurate diagram which is and applied effectively. Material is presented in relevant and logical way. Some punctuation ar grammar errors may be found, but the writing overall clarity and coherence.	This will explained n a	

	ı	·			
Evaluation -	Evaluation – indicative content				
	 Magnitude – depends on the level of subsidy offered in terms of whether it will cover additional housing or transport costs Measurement issue- measuring how many it will encourage to move will be difficult Time period: may take time for people to adjust to move/ if only offered for limited time will not have long term impact Even with the subsidies some unemployed will be reluctant to move due to family and friends in their current location 				
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	Answer	Mark
Number		(14)
9(e)	l , application and analysis – indicative content	(14)
Knowieuge	 Definition of maximum wage- the wage ceiling above which firms cannot pay workers Diagram showing maximum wage below the 	
	equilibrium for executives or footballers	
	Wage rate of executives	
	Wmax Max wage	
	O Ns N Nd Employment of executives	
	 Excess demand for labour/ shortage of labour (may be drawn on diagram) Supply of labour contracts (may be drawn with arrow on diagram) Demand of labour extends (may be drawn with arrow on diagram) The gap between the richest and poorest can be narrowed Business leaders have seen their earnings rise to very high levels/ it takes 4 days for the top executives to earn the same as an average worker in the UK earns in a year- this is unfair and the maximum wage will prevent such high earnings. 	
	 Footballers earning more than £50 million per year excessive/ top 10 models earning £50 million excessive Recruitment becomes more difficult for employers as they will be limited in terms of the financial rewards they can offer Imposing the maximum wage could see the tax revenue of the Government fall. Lost tax revenue-the richest 1% pay 27% of the income tax earned by the Government. 	

	One problem of a maximum wage is that some of those high earners will leave the country to seek				
		higher pay abroad where maximum wages are not in			
	place- brain drain				
	Candidates may present benefits or problems as KAA				
	Candidates may present benefits or problems as KAA and offer alternative perspective as evaluation				
Level	Marks	Descriptor			
0	0	A completely inaccurate response.			
1	1-3	Shows some awareness of maximum wage but			
_		information presented is often irrelevant and lacks			
		organisation. Diagram may be inaccurate. Frequent			
		punctuation and/or grammar errors are likely to be			
		present and the writing is generally unclear.			
2	4-6	Understanding of the maximum wage. This will 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 maximum wage. 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	– indicati	ive content			
		agnitude – depends on the level of maximum			
		age set in terms of the number affected			
	Measurement issue- measuring how many might				
	leave due to the maximum wage or other factors				
		me period: may take time for people to find ternative employment so short term little			
		npact but after research they may move.			
		agnitude of tax losses to government may be			
		rge			
	• If	a maximum wage was set too low football			
		eams in the UK would struggle to attract the			
		est players from other football teams in Europe-			
		aking football in UK less competitive			
		ome sports players can earn more than the			
		aximum wage through sponsorship deals			
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.			
3	5-6	For well developed evaluative comments supported by			
		relevant reasoning and clear application to context.			

Question Number	Answer	Mark
•	 Knowledge, application and analysis (up to 6 marks) Price increased to \$3.11 per pound/ any relevant data reference to Aug 2017/ highest price since September 2014 (1) Demand from China increased/ China's improved economic growth increased demand (1) China restricted imports of recycled copper so more have substituted to mined copper (1) 	Mark
	Diagram showing demand increasing	
	P1 P	
	Q Q1 Quantity of copper (lbs)	(6)

Question Number	Answer	Mark
10(b)	Knowledge, application (Up to 4 marks):	
	 Up to 2 Knowledge marks Definition or formula of PED- %ΔQ_D/%ΔP (1) Definition of price inelastic –e.g. where PED is less than 1/% change in quantity is smaller than change in price (1) 	
	OR Diagram may be drawn to illustrate price inelastic demand (1)	
	 Up to 2 Application marks Lack of close substitutes (1) so likely to be price inelastic as little option to substitute to if price rises (1) Costs and delays in switching to aluminium (1) so demand takes time to respond making it more inelastic (1) Alternatively- some possible substitutes so may be price elastic in long term (1) It is an essential metal in industry/ electronics (1) this meaning even if price rises the demand will not change by as much (1) 	(4)

Question Number	Answer		Mark
10(c)			(10)
Knowledge	• Do g the second of the secon	rion and analysis – indicative content befinition or formula of PES= %QQs/%QP. Pefinition of price elastic –e.g. where PES is reater than 1/% change in quantity is greater than change in price pefinition of price inelastic –e.g. where PES is etween 0 and 1/% change in quantity is maller than change in price the supply of copper is usually unresponsive to rice movements in the short term suggesting helastic. This is due to the high fixed costs and lengthy tart-up times involved in developing new opper mines. Existing copper mining businesses are working lose to their current capacity so cannot increase supply to meet demand suggesting helastic as they cannot respond to price rises. Et can take huge price changes in the market for supply to respond sufficiently to bring the market back to equilibrium again suggests esponsiveness smaller at small price changes. When the global economy slowed copper was tored and these stocks can be used to meet emand suggesting they can respond and it is more elastic. Diagram may be drawn to illustrate appropriate lasticity of supply	
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-2 Shows some awareness of likely PES. 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 PES for copper. 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 PES related to mining. Accurate diagram 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	Evaluation – indicative content			
	 Time- may vary over time with generally more elastic in long run. Depends on how long higher prices are expected to last Magnitude- depends on size of any price changes as to whether it becomes more profitable and attracts more supply Opportunity costs- depends on the relative price of other metals mined by firms 			
Level	Marks	Descriptor		
0	0	No evaluative comments.		
1	1-2	1-2 For identifying evaluative comments without		
	explanation.			
2	3-4 For evaluative comments supported by relevant reasoning.			

Question Number	Answer	Mark
10(d)		(14)
Knowledge.	application and analysis – indicative content	
, , , , , , , , , , , , , , , , , , , ,	Subsidy- Cash grant paid to encourage production/ business set up	
	Diagram may be offered – could relate to labour or product market	
	\$3 billion subsidy is encouraging \$10 billion investment from Foxconn	
	Helps to employ 13 000 workers directly	
	 Further jobs created with 19 000 to 26 000 with suppliers and other businesses 	
	 Provide LCDs for TVs, computers and medical equipment 	
	External costs as may cause more environmental damage as production requires use of copper, mercury and zinc	
	External costs linked to transport of metals and LCD panels may cause environmental damage	
	• For every \$1 subsidy benefit will be \$3.90 so \$3 billion generate \$11.7 billion of benefits.	
	External costs as they will be able to discharge materials into lakes/ reroute streams	
	May help create jobs that encourage people to stay in the region	
	Cost to Government to fund the subsidy has an opportunity costs as funds cannot be spent elsewhere	

Level	Marks	Descriptor		
0	0	A completely inaccurate response.		
1	1-3	Shows some awareness of impact of subsidy. 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 subsidy, 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 subsidy 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 -	Evaluation – indicative content			
 Foxconn will be required to restore two acres of wetlands for every one acre it destroys Magnitude- significant subsidy will have big impact on employment Measurement- hard to quantify how many benefits will come from subsidy Time period- short run- some environmental damage but long term they will be expected to replace damaged wetland People living in neighbouring regions may experience benefits e.g. employment or costs e.g. environmental damage 				
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	Answer		Mark
Number			
10(e)			(14)
10(e)	Emigration Net migrate and leavir Wisconsing workers. Net migrate than entereduce	D ₁	(14)
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3		
1	1-2	Shows some awareness of impact of net migration	

3	4-6 7-8	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. Understanding of impact of net migration, with some application to context. 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. Clear understanding of impact of net migration and linked to 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			
	Magnitude	e- 17 000 leaving may be seen as a large amount/	
		tion of population this may not be as significant	
		net migration may be more than offset by an	
		n the natural rate of growth of population	
		problem- retirements and birth rates also have an	
	, ·		
	•	labour market and consumption	
	 Depends on quality of the labour leaving- may be an issue of brain drain 		
	Foxconn investment may see this trend reverse in future-		
	attracting more to Wisconsin		
		Depends on supply of new housing in the region	
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.	
		resevant reasoning and elear application to context.	

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