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Examiners' Report  
Principal Examiner Feedback

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Pearson Edexcel International Advanced  
Subsidiary  
In Economics (WEC11)  
Paper 1: Markets in Action

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## **Introduction:**

This is the fifth series where this unit, Markets in Action (WEC11), has been assessed and it is the second October series. There were significantly more entries this October than in the previous October. Once again in many cases the standard of work seen in this series has been impressive.

In Section A, the multiple-choice section, the opening question was on the role of the government in a mixed economy and most could correctly identify the provision of public goods. A common error was to select the subsidy of a good with external costs. This was incorrect as they would attempt to try and reduce consumption of goods with external benefits. Another error was to select the tax of goods with external benefits. They would tax goods with external costs not benefits.

On Q2 most were able to identify that the market bubble was the market failure. Some chose D the example of government failure.

Q3 provided diagrams to illustrate changes on Production Possibility Frontiers. The students needed to show which diagram showed the impact of the earthquake in Nepal on the PPF. Most could identify B understanding that starting and finishing with full employment means both diagrams will have both positions on the curve. Commonly the students selected D in error which shows the reduction in output of consumer and capital goods. But the final position is not one with full employment.

Q4 asked for reasons consumers do not change mobile phone service providers despite being able to get cheaper deals elsewhere. Most could correctly identify that consumers exhibit habitual behaviour but the words computation and feeling valued persuaded some to opt for the responses. But it is a weakness of computation and it is current providers making them feel valued that causes them not to switch. Students on average did better on this question than any other.

Q5 looked at reduced demand for rice from Africa and asked the students to say what can be deduced from the diagram. About two thirds of students correctly identified the reduction in producer surplus. Where students did not get the answer correct the answers were evenly spread between the alternatives.

For Q6, students considered the introduction of a subsidy where students needed to identify the producer incidence of the subsidy many incorrectly identified the full area of the subsidy. Around half of candidates could correctly identify that the producer surplus was Rs 217 500 000. The other half were unable to identify the correct area and the subsidy incidence may need more focus in centres.

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

Q7, required the drawing of a diagram only, many however wrote at length. All marks are available for the diagram. The key element that commonly needed adding was the size of the excess demand or shortage.

Q8, required an explanation of the difference between normative and positive statements. Most could define each but for many the area for development is to explain why each statement is positive or normative.

Q9, needed an explanation of the impact of regulation stopping the sale of energy drinks. Most could access knowledge and analysis marks and applied to children but often missed the final analysis marks. The chain of reasoning in explaining was often too brief to achieve the last mark.

Q10, involved calculating income elasticity of demand and the majority achieved full marks. The common error was to take the percentage change in annual income and divide this by the quantity of new car sales which is of course the wrong way round.

Q11, required an explanation of the likely impact of a change in the price of Coca Cola on the demand for Pepsi cola. Most correctly provided the formula or definition, identified the goods as substitutes and that the demand for Pepsi cola would increase. Only the best calculated the percentage change in quantity demanded by rearranging the formula.

Section C, the data response section is based on information provided in the source booklet. The Extracts focused on the palm oil market.

Q12a, asked for a definition of equilibrium, most made reference to supply and demand intersecting to access the first knowledge mark. Only the best added the second element, most commonly linked to the market being in balance.

Q12b, most could define PED (price elasticity of demand) and identify a relevant example from the Extract. The elements completed less well were defining elastic demand and then explaining why the presence of substitutes lead to an elastic value.

Q12c, commonly students identified a reason why the price of palm oil decreased. They could draw a diagram showing the original equilibrium and drawing a correct shift in the curve. These responses were awarded three marks, this was commonly achieved. Many did not offer the second reason, or where they did, they did not illustrate it on the diagram. A significant number drew a second diagram and failed to achieve the final equilibrium as they had shifts on separate diagrams. To achieve the mark the shifts must be on the same diagram.

Q12d, asked students to examine the likely PES (price elasticity of supply) for palm oil. This was well done with a typical response gaining 1 of the two application marks and one of the two analysis marks. They often needed to consider another reason linked to elasticity.

Q12e, a discussion of externalities, most could define key concepts, draw relevant diagrams and identify relevant externalities from the Extract and offered evaluation. Better students were able to take the externality and explain in detail how the third party was affected.

Section D, the essay section offered students the opportunity to choose between two questions. Students were significantly more likely to attempt Q13 than Q14. Only 15% opting for Q14. Students tended to perform better on Q13 on indirect taxes than on Q14 on the underconsumption of travel insurance. In both cases the knowledge, application and analysis of the Economics was sound but whilst evaluation was better on Q13 it was weaker on Q14.

Most students 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.

## Question Level Feedback

The feedback on each question shows how they were well answered and also how to improve further.

### Section B

#### Question 7:

Students were required to draw a diagram to illustrate the impact of the introduction of the maximum price below the equilibrium price. Nearly all drew a supply and demand diagram with the inclusion of the equilibrium price and quantity. Most then drew the maximum price below the equilibrium price as indicated in the stem where it made it clear that it was below the current equilibrium price. The best students when drawing the maximum price below the market equilibrium were able to explicitly show the new higher level of quantity demanded and lower level of quantity supplied. When students were unable to achieve the full marks, it was the omission of the excess demand/ shortage being labelled.

Many students continue to include extended writing defining terms and explaining the diagram. All the marks can be achieved through the diagram alone. A significant number did describe the size of the excess demand in the write up and this was rewarded.

A small number of students drew the maximum price above the equilibrium price and often incorrectly drew a new quantity supplied and demanded down from this identifying an excess supply. Of course, if the maximum price was above the equilibrium price the maximum price would lead to the market equilibrium quantity and price as it is not binding on the market.

#### Question 8:

Two statements are given, and the vast majority can correctly define normative statement with most relating to value judgements. Many defined normative as being based on opinions which was not accepted. We would encourage students to remember that it is value judgments that they need to think about and remember. Others made reference to it being unverifiable or subjective which was acceptable. Most were able to accurately define a positive statement linking this to being based on facts, being able to verify the information, being objective and less commonly about it being value free. Whilst the knowledge marks were typically achieved the analysis marks were more challenging to access. The question required them to explain the difference and this required them to explain why statement 1 was positive and why statement 2 was normative.

Commonly students just identified that statement 1 was positive but offered no explanation as to why which was needed to access the mark. Statement 1 was less frequently successfully justified with many who did access the mark referring to the fact you can check to verify if the size of the subsidies were paid for renewable and non-renewable resources. Students did better at explaining why statement 2 was normative making reference to the term 'should' from the statement indicating it was a value judgement.

### **Question 9:**

This required an explanation of the impact of regulation to stop the sale of energy drinks to children. Most accessed the knowledge mark by defining regulation, often referring to it as rules or laws. Where they did not do this, they typically identified an appropriate impact with most focusing on reducing demand, consumption or improving health. The application mark was awarded for making reference to the age group targeted, under 18s. Most accessed this mark. For analysis, those that defined regulation accessed up to two marks for identifying the impact and developing. Those that accessed the knowledge mark identifying the impact often struggled to get the required development to access both analysis marks.

A nice approach seen was to draw a diagram showing lower demand and a lower equilibrium price and quantity often to access two marks.

### **Question 10:**

The calculation of the income elasticity of demand, saw students frequently accessing full marks. As soon as the correct answer was seen the full 4 marks were awarded. It was pleasing how many times this was achieved.

However, some did not arrive at this answer. Commonly they calculated the percentage change in income divided by the percentage change in quantity demanded. This is of course the wrong formula and leads to the wrong answer. Those that did this typically had correctly calculated the percentage change in quantity demanded and price to access two marks. Many also achieved the knowledge mark for the correct definition or formula despite applying it incorrectly at this last stage.

Another common error was to put a percentage sign at the end of the income elasticity of demand value.

### **Question 11:**

In Q11, the cross elasticity of demand is given for Pepsi cola with respect to Coca Cola. The students needed to explain the likely impact of an increase in the price of Coca Cola on the demand for Pepsi Cola. The majority accessed the knowledge mark by defining or providing the formula for the cross elasticity of demand (XED). Application required the identification of the goods as a substitute, due to the positive value of XED equal to +1.24 and frequently this mark was achieved. Many could identify that the demand for Pepsi cola will increase although few calculated the percentage change by rearranging the formula. Pleasingly some were able to show the elastic nature of the cross elasticity of demand means that the rise in the demand for Pepsi cola would be greater than the percentage change in the price of the Coca Cola to access the second analysis mark.

### **Section C**

#### **Question 12(a):**

Students could typically access at least one mark on Q12(a) to show knowledge of equilibrium mainly making reference to the intersection of supply and demand. Better students developed this further linking to the fact it was balanced/ stable or that it gave the market clearing price. Others successfully referred to the equilibrium price or market mechanism and the fact that this led to an equilibrium price and quantity.

#### **Question 12(b):**

The question needed students to explain the impact of the availability substitutes on the PED for palm oil. Most could define price elasticity of demand and substitutes. With the latter referring to the positive XED or the fact the goods meet the same need. Nearly all made reference to Extract A identifying a relevant substitute including rapeseed, soybean, sunflower or crude oil. Only the better students were able to explain that as the price of palm oil rises consumers can switch to substitutes making the PED more elastic.

#### **Question 12(c):**

Students were asked to analyse two reasons the price of palm oil decreased in 2018. Most students were able to draw the original supply, demand and equilibrium and most drew either supply shifting right or demand shifting left to gain a second mark. Most then identified from the Extract a relevant cause of the change. This would achieve three marks. Where students struggled was in that the student needed to shift both supply and demand, show the new lower equilibrium price and to make reference to a supply factor and demand factor in terms of causing the change. Students were still rewarded if they identified both the demand and supply factor but only drew one of the two shifts on the diagram.



Most could identify the demand factor such as the impact of the price of competing oils including soya, rapeseed and sunflower falling. Others referred to the lower crude oil prices. Where both were discussed only one mark was available for demand factors. Most could identify the supply factor in terms of abundant supply.

Unfortunately, many students that did analyse diagrammatically the impact of both demand and supply factors. However, they often considered the two reasons in isolation. That is, they referred to the demand factor and shifted demand appropriately on one diagram and then referred to the supply factor and shifted supply appropriately. Whilst both diagrams and both reasons were credited, they gained five marks when all completed correctly. However, the final mark for the final equilibrium could only be achieved where both shifts of supply and demand were drawn on the same diagram.

On this type of question where two shifts are required students are strongly advised to draw them on the same diagram and to show the original and final equilibrium.

#### **Question 12(d):**

On Q12(d) most students were able to use the data to offer arguments as to why the elasticity of supply might be elastic or inelastic. Most successfully defined price elasticity of supply. The second mark was commonly missed as students failed to define elastic or inelastic supply. It should be noted that inelastic supply should be defined as a value between 0 and 1 and not just below 1 as indicated by a significant number of students. I was impressed with the use of the data to help explain how it was elastic or inelastic. The majority identified the abundant supply and stockpile as a reason for it being elastic. Students also frequently identified the length of time it takes to grow palm trees to suggest why it was inelastic. The other reason less commonly used relates to the two harvests a year which was used in equal measure to justify elastic or inelastic. Key here is the explanation as to why this makes it more elastic or inelastic. Many students suggested one type of elasticity for KAA and the other for evaluation. For example, they argued it was elastic for KAA and inelastic for evaluation.

A successful strategy commonly implemented was to say how it was inelastic linking to the 30 months and harvests only twice a year. This was often evaluated by saying how it instead could be elastic due to the stockpile. This latter point being rewarded as effective evaluation as it offered an alternative viewpoint.

Too often though students gained two marks for explaining the elasticity linked to application. Then two evaluation marks for why it was the opposite elasticity. However, this missed off an additional application and analysis mark which was available. With two application and two analysis marks further application and analysis was often needed.

Examine questions do require an evaluation and pleasingly the vast majority did attempt one. This could either be achieved through the development of an evaluation point or the identification of two evaluative comments. Most achieved the former.

### **Question 12(e):**

On Q12(e) students discussed the externalities associated with the production of palm oil. Extract B made reference to both positive externalities or external benefits and negative externalities and external costs. It was fine to focus on one or the other in the response. The best responses often looked at negative externalities in their knowledge, application and analysis and argued positive externalities in their evaluation or they reversed this strategy.

The question clearly stated that students needed to illustrate the answer with an appropriate diagram. A significant number omitted a diagram. Those that did complete one often drew the external costs of production diagram. The majority drew MSC (marginal social costs) above MPC (marginal private costs). The market equilibrium and social optimum was normally explicitly referred to and welfare loss was normally attempted or more frequently drawn incorrectly pointing to the market equilibrium rather than the social optimum which it should be. The better answers used their diagrams in their analysis.

The Extract included a range of externalities and these were used in most responses. Most could lift from Extract B relevant examples of external benefits and external costs. Just lifting it from their Extract without development as to why they were external costs and benefits and what the likely third-party impacts were limited many students to Level 1. Those that could identify the third-party affected and how they benefited or suffered were most successful and able to access Levels 2 and 3. For example, those able to talk about the employment levels and how this generated income which was spent in local shops benefiting local businesses. Or those able to link greenhouse gases to global warming and the increased risk of flooding, for example, were the students who did most well. It is this effective chain of reasoning that takes the externality and explains it in detail that normally accessed Level 3.

The evaluation often looked at the external benefits with many identifying the level of employment- directly or indirectly. The better students linked this to how these people would spend in local shops and that the shopkeepers earning more revenue is the external benefit. There were many generic evaluative comments made, for example, linking to magnitude and measurement issues. It is important that these are both developed and in context to be able to access Level 3. For example, magnitude might be linked to the number of animals affected to show application and to then develop this to consider the size of these costs.

## **Section D**

### **Question 13:**

For Q13 most drew the diagram and used this to work through the impacts on different economic agents. This was well applied to the petrol market with many able to link this market and substitute markets such as electric vehicles and public transport.

Most could accurately define indirect taxes, as well as ad valorem and specific taxes. Better students made the link between the tax, increasing production costs leading to the supply reduction. Diagrams were often drawn and effectively used in the analysis, that is they referred to the areas on their diagram explicitly in explaining the impact on different economic agents. Better students picked up from the stem that the difference between the two countries may generate some cross-border smuggling or informal activity and there was some strong analysis of this.

Students still struggle to access Level 4 for their Knowledge, Application and Analysis. To achieve this accurate knowledge is needed so precision in definitions, application needs to be focused on indirect taxes, perhaps making reference to Germany and France or other countries. The analysis needs to demonstrate a logical, multi-stage chain of reasoning. Similarly, evaluation would perform better when referring to context of the question and where there is clear logical chain of reasoning offered.

### **Question 14:**

Whilst a less popular question many that attempted it were able to perform well. They tended to be able to identify multiple reasons, although better students focused on fewer reasons but looked in detail trying to develop a chain of reasoning which explained reasons why there was an underconsumption. Many focused on an asymmetric information per information gap argument with others going for an irrational behaviour approach. Considering issues such as computational difficulties, inertia, habitual behaviour and the influence of others or herding.

Where students struggled was how to evaluate these arguments. Those that successfully did this said how information gaps were being filled by the internet, government and insurance companies. Others considered different levels of risk on different holidays showing why they do not insure in some instances. Another common approach was to argue how in fact it was a rational response not to insure.

A common issue with evaluation was to consider government policies to rectify the underconsumption but the question is about reasons not solutions so this work did not answer the question.

A significant number did not put an x next to the question they had selected. It is helpful if students remember to put an x in the box of the question they select. It is also helpful if they change their mind to change the selected question by putting a line through the incorrect question number and replacing the question attempted.

## Paper Summary

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

### Section A:

#### Multiple Choice Questions

- Students need to ensure they can distinguish between market and government failure as it was common for students to select a government failure in error on Q2.
- When considering the reasons consumers do not change mobile service provider many students saw reference to computation and feeling valued and opted for these answers, it is important they carefully read it to ensure it is a reason they will not change provider.
- The two questions requiring identification of information on a diagram were the two questions with the lowest average score, Centres need to give students the opportunities to practice these types of questions.

### Section B:

#### Short Answer Questions

- When asked to draw a diagram all marks can be achieved through the diagram and no written explanation is required. The majority of students supported their response with a written explanation when in fact the diagram had achieved full marks.
- Q8 on normative and positive statements was challenging. Most students could identify that statement 1 was positive and statement 2 normative but failed to explain why. It is important that rather than just repeating the statement they explain what shows that it is positive or normative.
- The table on Q10 had the income first and quantity of new car sales second. Some went on to complete the calculation with the percentage change in income divided by the percentage change in quantity demanded. Even despite in most cases the formula being correct.

Section C:  
Data Response

- On Q12(c) students needed to show shifts in both supply and demand and it is important that they look for both on questions that ask them to analyse why prices change. The question asked them to analyse two reasons, so they need to look at two. One of which links to abundant supply and the other to falling demand as crude oil prices fall.
- On Q12(d) two pieces of information from the extract needed using and this needed linking to the PES to access the two application and analysis marks.
- In Q12(e) there were many possible externalities offered. Some students lifted many from the Extract. It is better to analyse fewer in detail offering for a chain of reasoning that links the externality to the impact on the third parties.

Section D:  
Essay

- Diagrams should be drawn where helpful and many students successfully incorporated an indirect tax diagram. Stronger responses utilised their diagram to explain the impacts on different economic agents.
- Students that did best were able to apply to the specific question and use relevant examples that fitted with the petrol market and travel insurance market.
- Too frequently students make reference to policy solutions. For example, in the question on travel insurance many explained how the government could resolve this, but this did not answer the question.

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