Examiners' Report

Principal Examiner Feedback

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Pearson Edexcel Advanced Subsidiary in Economics (8EC0)
Paper 1: Introduction to Markets and Market Failure

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Introduction

This was the fourth sitting of this paper (8EC0 01) from the new specification launched in September 2015. 8EC0 paper 01 tested candidates on their knowledge and understanding of topics covered in Theme 1 of the specification content.

The structure of the paper comprised of two sections. Section A included five short questions, broken down into smaller parts, based on a spread of specification elements in Theme 1 (totalling 20 marks), candidates were advised to spend 25 minutes on this section. Section B focussed primarily on health provision, a highly topical issue, with a wide range of data provided from which candidates could draw to gain application marks (totalling 60 marks). Candidates were advised to spend 1 hour and 5 minutes on this section. Extract C related to issues surrounding public goods. Section B comprised of one data response question broken down into a number of parts, including a choice of extended open-response questions; candidates select one essay from a choice of two. The total time available for this paper was one and a half hours and there was little evidence of candidates running out of time. Overall, the paper appeared accessible to the vast majority of candidates and differentiated effectively.

In Section A each short question was broken down into non-supported multiple choice questions, using option boxes which were dealt with well, plus a short answer question worth one, two or three marks. Three-mark responses were often impressive with good subject knowledge (K) often starting with a definition, analysis (An) and application (Ap) where required, although candidates would benefit from ensuring they attempt to apply their answers given the data/context provided.

In Section B there was a clear recognition that good economics is rewarded rather than over worrying about a set structure to respond. This was highlighted with the ten mark response where one substantial point regarding the characteristics of public goods would have been sufficient, assuming it demonstrated an understanding of the concept in context, was fully integrated and answered the broad element of the question. This, followed by one substantial applied evaluative point, which answered the broad elements of the questions through a coherent chain of reasoning, was sufficient to obtain full marks on one page. Candidates who made two substantial points each evaluated in depth typically required additional paper and may have limited their time available to answer other questions. Of course, where a ten mark question requires candidates to assess two reasons or the effects then there is a requirement to move beyond substantially evaluating one major point. It is pleasing that candidates grasp the need to provide logical chains of reasoning with their analysis and applying theory and data to questions. Most candidates grasped the need in the fifteen mark and twenty mark

responses that a limited number of points (typically two substantial points) evaluated in depth would be sufficient to access the top levels.

There was still some evidence of candidates struggling with evaluation with it either missing or at Level 1 evaluation which is often generic or thin. For top level evaluation ensuring it was well explained and in context was required. Centres may wish to practice more on getting candidates to evaluate what they have already written as their substantial point and to critically evaluate the knowledge, chains of reasoning and data as a means of developing their evaluation. This will also help them to access top level essay evaluation (L3) in the essays where 'sustained judgement' is required. Candidates would benefit from attempting to weigh up theory and the sufficiency of the data as they write, to offer clear and sustained judgement. With the essays a small number of candidates still did not indicate clearly which essay 6(f) or 6(g) they were answering by marking a cross in the box available, although their written responses did make it clear.

It is important to practise full papers using the Sample Assessment Materials, and growing body of live papers under timed conditions to strengthen exam skills. In addition across the paper diagrams drawn would benefit, in some cases, with more precision in accurately and fully labelling as well as a careful explanation of them. The performance on individual questions is considered in the next section of the report and there are two examples of candidate work for each one. These examples act as a guide as to why a question was well answered and also how to improve further.

Section A:
Multiple-choice and short-answer questions
A significant number of candidates were very well prepared and demonstrated an excellent understanding of the specification and the techniques involved in answering the questions. The multiple choice questions format provided an accessible format for candidates to select their chosen option. Candidates are mostly confident in using definitions, annotating or drawing diagrams and calculations. An area to work on would be completing tables and ensuring a careful reading of the question set and data/context provided.

Section B:
Data response questions
The new format for data questions met with a positive response on the whole. Responses to 6(a) on revenue provided confident diagrams carefully illustrating and labelling the fall in revenue. The quantitative skill four-mark calculate question 6(d) was straightforward, with the overwhelming majority of candidates showing their working and obtained full marks. Evidence of candidates mastering the breadth and depth of the specification were clear in response to 6(c) on assessing the extent to which public parks are public goods. There was a substantial

weighting for evaluation marks (sixteen out of forty-five marks) in the level-based responses. A ten mark question comprises four evaluation marks, a fifteen mark question comprises six evaluation marks and a twenty mark question comprises six evaluation marks. Consequently, it is vital that candidates make in-depth applied evaluative comments when required by the question, as well as offering judgement using positive economics throughout, in order to avoid disappointment.

Candidates have grasped the need to avoid generic evaluation comments and provided
significant depth of explanation and application in their evaluation. To achieve the higher level, the maximum evaluative marks, there needed to be evidence of substantiated judgement, this was often missing or left to a conclusion which summarised the points covered and made a generic judgement call. Both essay questions were accessible to candidates though question 6(g) (methods of government intervention) proved to be significantly more popular than question 6(f) (disadvantages of a free market approach); this appeared to be related to new specification content although where 6(f) was answered responses were confident and applied well indicating candidates are becoming more eloquent with this concept.

Question 1 (b)

Candidates typically performed well on this question, with most able to identify what the division of labour is and go on to analyse the benefits of it for car manufacturers. Only a minority of candidates were able to give specific examples from the car industry which were necessary to gain the application mark.

Question 2 (a)

The majority of candidates were able to recognise that the demand curve shifted to the left but were less secure in their ability to show a *change* in consumer surplus. Typical mistakes were to indicate either a left shift in supply, suggesting a *contraction* in demand, and to confuse consumer and producer surplus.

Question 2 (c)

Though many candidates were able to achieve the mark available here, lack of precision in defining demand was an obvious issue for many. Typically, we were looking for some notion of *effective demand* and definitions discussing needs or simply wants without any sense of ability to buy were too vague to be rewarded.

Question 3 (b)

This question was a challenge for some. Many candidates were able to do the maths but not link the numbers to the requirements of the question, which was asking about total revenue. There was an acknowledgement that a correct percentage change calculation could access the application mark even if the answer was incorrect.

Question 4 (b)

Most candidates were able to demonstrate a left shift of the supply curve in response to the rise in VAT on the market for energy use but the vast majority were unable to show a non-parallel or pivoted shift, tending to show only the impact of a *specific* rather than *ad valorem* tax.

Question 4 (c)

This question required a definition of an indirect tax and the vast majority of candidates were able to perform this correctly, though over ten percent of the responses were either incorrect or too vague.

Question 5 (b)

Candidates were able to recognise the impact of a change in income on the demand for Freddos in most cases but many struggled to identify Freddos as an inferior good and few were able to then move on to effectively suggest how the producers of Freddos could respond to this information.

Question 6 (a)

This question required candidates to consider how the health care market illustrates the economic problem and responses were generally good. Most candidates were able to recognise the nature of the economic problem and use the data to illustrate it. Most were unable to then analyse effectively enough to link back to the issues facing decision makers in health care to achieve the second analysis mark. Good responses could clearly draw the conclusion that health care priorities illustrated the economic problem.

Question 6 (b)

Candidates performed less well on this question, primarily because they focussed excessively on problems for insurers rather for consumers as well. This concept seemed insecure in many responses. Better candidates were able to clearly

identify how asymmetric information causes failure in the health care market and went on to give clear examples using the extract. They could then analyse the impact of this on the market overall.

Question 6 (c)

This was the first of the levels-based questions and was the only data response question not related to health provision. Extract C contained plenty of information candidates could use to consider the extent to which parks were public goods and once the key concepts of non-excludability and non-rivalry were applied to the situation the majority of responses were able to build a case successfully. Overall responses were good and top level evaluation marks tended to be awarded for the recognition that public parks are quasi-public goods depending on variables such as the time of day, the day of the week and, indeed, the size of the park.

Question 6 (d)

This question was a four-mark calculation based on the idea of charging patients when they visit a GP. A large majority of candidates were able to complete this successfully, which is a pleasing indicator of the improving numeracy of the cohort each year.

Question 6 (e)

This fifteen-mark question was a strong test of a candidate's ability to link textbook knowledge of supply and demand factors to a sector of the economy where market forces are unusual. The failure of the NHS to treat patients effectively is thoroughly discussed in the data and candidates used both supply and demand-side factors to score quite highly on the KAA element of the question. There was no requirement to cover both supply and demand-side factors but better candidates tended to do this and used the data intelligently to substantiate careful analysis and sophisticated use of a diagram. The best candidates were then able to evaluate effectively and this often included consideration of the elasticity of the supply or demand curves drawn, the extent to which the factors considered impacted on the market, and the time scale over which the forces considered were likely to play out in practice. Weaker candidates tended to make little attempt to evaluate and this explains why the performance overall was less than expected and, equally, where improvements could have been made most easily.

Question 6 (f)

The first of the essay questions, this question was the most popular by a significant margin. Candidates also performed marginally better on this response than they

did on 6(g). The question allows candidates to demonstrate their understanding of a range of possible ways the government could intervene to reduce excess demand. These ways are in the extract, and strong candidates made a good attempt to substantiate points diagrammatically and in context. There was usually a clear recognition that some methods will be more effective than others and this could involve clear evaluation using concepts developed during the teaching of the course, such as subsidies to the private sector which reduce demand on the NHS; the introduction of charges for visits to GPs which could reduce unnecessary appointments; and an increase in frontline funding involving greater levels of public spending. Top level KAA marks required at least two ways and the better responses would draw accurate supply and demand diagrams, whereas weaker candidates would reproduce textbook versions with little though to the elasticity of supply and demand in health care provision. Evaluation marks could be achieved equally well by considering the disadvantages of each method per se, or in more sophisticated cases, in relation to the other methods proposed. The best responses would work by proposing realistic solutions to the problem of excess demand and then evaluating the most effective in the context of the real-world situation.

Question 6 (g)

This was a highly accessible question considering the disadvantages of the free market approach to health provision. Nonetheless, perhaps because of its slightly more theoretical premises, it proved to be much less popular than 6(f). There are numerous failures alluded to in the extracts, particularly asymmetric information. This essay requires a clear exercise of critical analysis and good candidates would be expected to have a developed notion of the positive externalities generated by health care and how they may be under-provided in a free market. Good candidates used a positive externalities diagram and used it to intelligently assess why free markets would lead to a sub-optimal allocation of resources in the health care sector. This would require government intervention of some kind to correct this market failure. Another argument that was developed in relation to the question was the inequality of access to health care developing from the unequal distribution of income in free market economies. Sophisticated responses recognised that government intervention would be required to mitigate the worst excesses of this in the health care sector. There was usually at least one other argument linking in to ideas of asymmetric information alluded to in the extracts. Comparisons may be made between countries such as the UK and the USA. There could be knowledge of Obamacare. To access evaluation marks candidates could use the prompts in the extracts which discuss the advantages of competition such as the potential to drive up standards of provision and the opportunity for consumer choice. Many candidates discussed how the NHS is a state monopoly and how it could be the best case for the expansion of the free market approach to more areas of health provision.

Paper summary

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

Section A: short-answer questions and multiple choice

• Define accurately the key economic term(s) used in each question.

• Candidates should not spend too much time defining only.

• Be prepared to annotate diagrams when relevant to the question and make sure these are properly labelled and explained in the text. Question 2(a), for example should be used to indicate consumer surplus before and after the change in demand.

• Always refer to the information provided explicitly, it is better to refer to specific numbers, for example the cross-price elasticity data in 3(a) could be used to calculate application marks in 3(b).

• Know the difference between consumer and producer surplus.
• Ensure candidates practice calculating price elasticity of demand, supply etc.

• It is important to emphasise that ad valorem and specific taxes have different effects on the supply curve.

Section B: data response

• Focus on developing economic analysis in the high mark questions. A number of candidates moved from definitions and a brief explanation of an economic issue straight into evaluation. This was evident in fifteen and twenty mark questions. Economic analysis typically involves explaining the sequence of events leading up to a particular outcome. The weighting on a twenty mark question is 14KAA and 6 Eval. If the KAA is not sufficiently well developed there is little chance of accessing L4.

• Where diagrams are requested these should be drawn as they will be well rewarded. It is essential, however, that they are drawn accurately. Elasticity in particular is a crucial concept and in 6(f) allowed access to both KAA and Eval marks.

• 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 producer/consumer surpluses were able to access the higher levels. Diagrams did best when integrated into analysis when the points on the diagram are explicitly referred to.

• Having identified externalities from extracts it is important to explain which parties are specifically affected and how they affect the third party. It is important to be clear what the externality means for the affected parties e.g. in health care it is the employer who benefits from a healthier workforce because they take less time off work and may be more productive when they are working.

• When drawing subsidy diagrams it is important to show not just the right shift of the supply curve but the overall cost of the subsidy and how it is shared between producers and consumers.

• Asymmetric information is crucial concept in health care provision and affects both producers and consumers. Try to go beyond the extracts with your own examples too.

• Public services such as the NHS were often confused with public goods such that are non-rival and non-excludable. Health care has positive externalities in consumption and is under-provided in a free market. It is often called a 'merit good', a term not used on the specification but which teachers often use. Public goods may not be provided at all in a free market.

• Understanding the disadvantages of free markets but *also* their advantages, as asked about in 6(g) should be well grounded. Knowing about asymmetric information and a range of externalities is crucial.