Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel International Advanced Subsidiary
Economics (WEC11/01) Unit 1:Markets in action

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Introduction

The entry for this series was significantly higher than is typical for an October series. Once again there were many cases where the standard of work has been impressive. Equally there were examples where learners struggled to perform consistently across the paper.

In Section A, the multiple-choice section, Q1 was on the government's role in a mixed economy. Most could correctly identify that this was to introduce a tradeable pollution permit to reduce external costs.

On Q2 learners needed to identify why households changed suppliers to save on average £290. Many could correctly identify that this was to maximise utility. Those that selected being valued by the original supplier should note that if this was the case people would remain with them and not switch. Similarly, if they were poor at computation, they would not have calculated the savings and remained.

Q3 tested understanding of price elasticity of demand. The correct answer needed them to identify that demand for refrigerators was price inelastic, which the majority could do. Some opted for B but a value of -0.37 would mean demand is relatively rather than perfectly inelastic.

Q4 presented a diagram and illustrated the impact of a reduction in price and increase in quantity. Learners had to calculate the change in total revenue. Most were able to multiply the price and quantity to calculate the total revenue before and after to then work out that total revenue increased by €13 500. Some calculated the new total revenue and selected B or the original total revenue and selected D but it was the difference between the two that was needed.

Q5 was a question on maximum prices. The imposition of a maximum price for infection testing kits generated excess demand Q_0Q_2. With demand greater than supply this was excess demand rather than supply. Demand extends and supply contracts helping to reject A and B from the answers.

For Q6, learners were provided with data on the estimated cross elasticity of demand. It was pleasing that most could identify that the demand for water was most responsive to a change in the price of sugar sweetened drinks. Some identified A but the demand for coffee was least responsive to a change in the price of sugar sweetened drinks. Similarly, many mistakenly identified C but an increase in the price of sugar-sweetened drinks will lead to a less than proportionate increase in the demand for milk.

Section B

Q7 asked learners to draw a diagram to illustrate the impact of the introduction of a subsidy for solar panel manufacturers. Most drew a supply and demand diagram and drew the original equilibrium accurately. Most could then draw the correct shift in supply and the new equilibrium. It was less likely to see the learners draw the area of the government expenditure on the subsidy to access the final mark.

Q8 required an explanation of the difference between capital goods and consumer goods. Most could accurately define capital goods with most making reference to them being used to manufacture consumer goods. Too many just said consumer goods were goods for consumers which was not enough. The best answers referred to goods used to meet consumers wants and needs. The data references needed to make reference to the numbers/percentages in the table and the relevant months.

Q9 asked for a reason for the provision of the public good, sea defences by the Government in the Netherlands. Most defined public goods making reference to non-excludability and non-rivalry. The explicit reference to the €1 billion was also common. The aspect that was more difficult was explaining the reason why. Better responses made reference to the free rider problem which makes it difficult to make people pay and for a profit to be generated by the private sector firms.

Q10 provided data on the price and supply of coffee beans. This needed to be used to calculate the price elasticity of supply. Most learners were able to successfully calculate the correct answer to achieve full marks. Commonly those that got the wrong answer completed the PES calculation the wrong way round. It was pleasing how many accurately calculated the percentage change in quantity supplied and price.

Q11 The question looked at the impact on consumer surplus of the increased costs of transport resulting in the price of bananas rising. Candidates typically drew a diagram with supply shifting left to gain one mark. Many drew at least one consumer surplus area and many did both for two additional marks. The mark often not achieved was for an accurate definition of consumer surplus.
Section C focused on the materials in the source booklet that related to the markets for rubber, tyres and rubber gloves.

Q12a required a definition of complementary goods. Most correctly identified the fact that the XED would be negative and often the example from the Extract cars and tyres was used, this was the only acceptable example. Many referred to the fact the two goods are often jointly demanded.

Q12b asked learners to analyse why the price of rubber fell and required the use of a diagram. This diagram was worth up to 4 marks for the learners. Nearly everyone attempted a supply and demand diagram with most drawing the equilibrium for first mark. Many correctly shifted demand leftwards to access the second. The new equilibrium price and quantity enabled the 3rd and 4th mark to be awarded. The final marks were normally achieved by using examples from the Extract as to why the prices decreased.

Q12c needed an explanation of what was meant by 'the supply of rubber is price inelastic'. Many defined price elasticity of supply but no mark was available for this. Defining price inelastic supply was where the mark was awarded. Most made reference to the fact that supply was more responsive than the change in price. There were a number of reasons that it was inelastic in the Extract. Most picked out that it took 6 years to produce a crop with the other reasons less commonly referred to.

Q12d was an examine question that required some evaluation. It was this element that was commonly omitted. Most could examine the effect on producer surplus of the change in market conditions. Most correctly drew demand shifting to the right and with the original and new equilibrium achieving two further marks. Where they correctly identified the areas of the original and new producer surplus they gained the third and fourth mark. Most used the data explicitly to access the two application marks. When producer surplus was defined another mark was awarded. Evaluation tended to focus on the fact that the change in producer surplus may be short term and that demand would later fall.

The final question in section C, Q12e required a discussion of the external costs associated with the production and consumption of tyres. Most could accurately define external costs and although not required many successfully drew an external cost diagram. Most could identify relevant production and consumption externalities. Better

responses tended to distinguish whether they were production or consumption and about how the third parties were impacted. Evaluation offered tended to focus on the difficulty to measure external costs, possible external benefits and how many of these costs accumulate only in the long term.

Section D had a choice of two essays. Q13 was the more popular question on evaluating an indirect tax on using mobile internet data. The mean score was higher on this essay. The better responses defined indirect taxes and identified it as a specific tax. A diagram was often integrated into the response to show the impact on consumer or producer surplus, government revenues and incidence of the tax. The application to context was generally good. The evaluation was attempted and was often in context.

Q14 was the less popular essay and whilst many used the context and could identify the roles many needed to go on to how this supports the economy. It was often a lack of analysis that limited the score. Evaluation was often more limited also although there was some good evaluation linked to the financial crises and market bubbles.

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

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. Candidates were explicitly asked to draw a subsidy diagram and to show the size of the government revenue. This was commonly ignored with no attempt to identify the area of government revenue. Most candidates were correctly able to draw a supply and demand diagram and shift supply correctly to the right. The vast majority could also include the original and new equilibrium price and quantity. The question asked students to show the area of government expenditure on the subsidy in their diagram. A significant number made no attempt to do so. A common error was to find the area of the government spending on the subsidy by going from the original equilibrium to the new supply line to show an incorrect area for the government spending on the subsidy. Learners should clearly label the area of government spending.

Q8, required an explanation of the difference between capital and consumer goods. To achieve the first knowledge mark learners needed to define capital goods. This was better done with most focusing on the use of capital goods to manufacture consumer goods. Others made reference to man-made aids to production. This definition of capital goods was much better than the attempts at consumer goods. It was not rewardable where learners simply said consumer goods are goods for consumers which was a common response. Better responses made it clear that consumer goods are used by customers to fulfil wants and needs.

To access the application marks learners needed to explicitly state the numbers from the table and the date. Saying that the use of capital goods or consumer goods had increased or went form negative to positive was not sufficient. A common approach was to give the difference between the two numbers for each good. However, this is a percentage-point change not a percent change and was only rewarded where they made reference to the percentage point.

Q9, gave an example of the Dutch Government spending €1 billion a year on flood defences. Learners needed to explain one reason for the prevision of flood defences. The most common response accurately defined public goods with most referring to non-excludable and non-rival. To achieve the application mark learners needed to explicitly make reference to the amount spent by the Dutch Government. The better answers made reference to the free rider problem and that the public would consume the good without paying. Many made the link the fact private sector firms will find it difficult to make a profit so the government had to step in. A common misconception was the public goods are any good paid for by the government confusing public goods and public sector.

Q10, involved calculating price elasticity of supply and pleasingly most could achieve full marks on the question. This is achieved as soon as the correct answer is seen. If the answer was incorrect then marks were awarded for an accurate definition or formula. Most learners included the formula. A pleasing number could calculate the percentage change in quantity supplied and price. Unfortunately, a number calculated the formula the wrong way round so lost the final mark.

Q11 needed learners to explain the effect of the increase in the price of bananas on consumer surplus. The knowledge mark was awarded for an accurate definition of consumer surplus. The best attempts at this made reference to the difference between the price consumers are willing to buy at and the market price. Regularly learners missed out the words difference between which meant the statement did not make sense and was not rewarded. The stem explained that the price rise was caused by increased costs of transportation and the majority could correctly shift supply to the left. Some confused consumer surplus with producer surplus. Stating that consumers surplus decreased was sufficient for 1 mark. Many students identified consumer surplus before and after and identified the areas in their write up for two marks.

Section C, the data response section is based on information provided in the source booklet. The Extracts focused on the markets for rubber, tyres (tires) and rubber gloves.

Q12a, asked for a definition of 'complementary goods'. Performance on this question was pleasing. Most made reference to complementary goods being in joint demand, that the XED would be negative. The other common example was to give the example in the extract, cars and tyres. No other examples were rewarded.

Q12b, the question required analysis of why the price of rubber fell. Many used the values in the question which were not rewarded but an application mark was available for calculating the percentage change in the price. Candidates could normally draw an initial supply and demand curve with equilibrium price and quantity. Most drew the demand curve shifted to the left with the new equilibrium price and quantity. A common error was to also shift supply which meant the equilibrium was in the wrong position and was not rewarded. The vast majority gained two marks for making reference to the reasons for the reduced demand for rubber. Most made reference to the decrease demand for rubber tyres, reduced usage in Europe, North America, South America and temporary closure of car factories.

Q12c, required learners to explain what was meant by price inelastic supply. A significant number of learners defined price elasticity of supply but no marks were available for this. The knowledge marks were awarded for showing understanding of price inelastic supply. A significant number made reference to the PES value being between 0 and 1 or that the change in price results in a less then proportionate change in quantity supplied. A significant number stated that the PES value was below 1 and it is important to understand that values below 0 would be counted in this assertion making it incorrect. Therefore, it is important to say that the value is between 0 and 1. A small number drew a diagram to illustrate price inelastic supply. Typically to access the application marks reference was made to the 6 years before rubber trees produce a crop and fewer made reference to the other factors, linked to rainfall, temperatures and regions where they grow. A small number of candidates explained inelastic demand in error.

Q12d, asked students to examine the effect on producer surplus of the change in market conditions for rubber gloves. The definitions of producer surplus were not always precise enough. Many learners omitted the phrase the difference between which meant the responses could often not be rewarded. Nearly all drew a supply and demand diagram with an equilibrium to gain the knowledge mark. Most shifted demand right. There was typically good use of the data making reference mostly to the 366% increases in profits for Top Gloves or rapidly rising demand for rubber gloves. Commonly learners identified the producer surplus before and after. To gain one mark it was sufficient to make reference to the fact producer surplus increased. Evaluation

tended to focus on the idea of the increased demand being temporary and after the global health crises demand may fall again. A significant number offered no evaluation.

Q12e, involved a discussion of the external costs associated with tyre production and consumption. Most defined external costs accurately. Learners needed to consider the external costs of production and consumption. It was common for one to be omitted. It was more common for no explicit reference to be made to which external costs related to production or consumption. A diagram was not rewarded but was consistently used to enhance the response. When asked to identify the production external costs most could identify the relevant example of deforestation in the Mekong region. Where responses were lacking they failed to explain how third parties were affected by this. Similarly for external costs of consumption most could identify the tyres emitting more particles but struggled in identifying much more than was given in the Extract. For example, they needed to talk about how the increased level of lung cancer could affect the individual, their employer or government. It was those that went on to develop the impact on health care costs and loss of workforce that performed better. There was some good evaluation offered. Many looked at the recycling of tyres, another focus was on the fact the research focused on only one car. Another common evaluation linked to the difficulty in measuring the external costs.

Section D, the essay section offered students the opportunity to choose between two questions. Learners were significantly more likely to attempt Q13 than Q14.

Q13 This was by far the most popular question. Learners evaluated the likely microeconomic effects of the introduction of the indirect tax on mobile internet usage. Learners who incorporated a diagram tended to perform well, although this was not a requirement. Especially where the diagram was integrated within their responses. It was uncommon to have responses that were not applying the responses to the indirect tax on mobile internet usage. There were very few generic responses. Most recognised that the tax was specific and did best when their analysis focused on a shift rather than a pivot of the supply curve. It was pleasing that so many analysed the impact of the indirect tax on a range of economic agents including mobile internet consumers, the social media sites from the question and government. It was pleasing that so many considered possible government failures that may result from the tax. Particularly around setting the right level of tax due to information gaps and unintended consequences. Evaluation was commonly offered. There was a good variety of different attempts to evaluate. Some effectively evaluated making reference to the government failures. Others related to the importance of the PED and the idea that people were addicted to social media. Commonly they considered the impacts on different income groups. Measuring the ideal level of tax as considered as was considerations of whether the amount was significant as proportion of the income of consumers. One common point was to say that tax revenue would decrease as people stop consuming the product. However, as a new tax it just means that the tax earned is lower than it would have been had they continued purchasing.

Q14 required an evaluation of the role of financial markets in the economy. The question was infrequently selected. Candidates could identify a range of relevant roles of financial markets in an economy. Most linked to the stem in terms of facilitating savings, borrowing and transactions. But a range of further roles not linked directly to the stem were also offered. It was the analysis on this question that was weaker. Better candidates were able to link the role to how it supported the smooth operation of the economy. The stem was well utilised in explaining the roles. Evaluation was rarer but where offered focused on market failures associated with the financial sector. For example, market bubbles, moral hazard and the financial crisis.

Paper Summary

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

Section A:

Multiple Choice Questions

• The role of the government in a mixed economy was not so well understood with a significant number unable to identify that the government will introduce a tradable pollution permit scheme to reduce external costs. Centres should ensure learners consider the full range of the roles of the government.

• The topic of maximum prices caused a challenge with the lowest mean score. Many identified it as excess supply when it was excess demand.

Section B:

Short Answer Questions

• When asked to a draw a diagram all marks can be achieved through the diagram and no written explanation is required. The majority of learners supported their response with a written explanation when in fact the diagram had achieved full mark

• If asked to include a specific aspect on the diagram they must draw it. On this paper the area of government revenue needed identifying and many did not complete this.

• Q8 on the difference between capital and consumer goods needed more precise definitions of consumer goods. Just saying consumer goods are goods for consumers is not sufficient.

• In Q11 it is important to offer a precise definition of consumer surplus which makes reference to the difference. Many omitted this altogether.

Section C: Data Response

• On Q12(b) when asked to analyse why the price fell the Extract referred to only conditions of demand. Yet many shifted both supply and demand so the final equilibrium was in the wrong place.

• On Q12(d) when asked to examine the effect on producer surplus of the changing market conditions required the concept of producer surplus to be defined but many did not do this.

• On Q12(e) when asked to look at external costs of production and consumption it is important to make it clear to the examiner whether the external costs affect production or consumption.

Section D:

Essay

• Define the key terms relevant to the question

• Diagrams should be drawn where helpful and many students successfully incorporated one into Q13. Stronger responses utilised their diagram to explain their points

• It was common on Q14 for learners to consider many examples of the role of financial markets but not to look at each in detail. It is better to look at fewer in more detail than to look at many in limited detail.