Examiners' Report
Principal Examiner Feedback

January 2022

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

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Introduction

The entry for this series was higher than is typical for a January 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 functions of the price mechanism. Under half correctly identified that an increases in the price of hand sanitisers would ration to those most able to pay. This was the question candidates performed least well on in Section A. A common error was to identify the government intervention in implementing a maximum price. When the government intervenes it is not the price mechanism at work.

The performance on Q2 was the best in Section A. Nearly all were able to identify the advantage of the division of labour being introduced as the increase in output pr worker.

Q3 tested understanding of income elasticity of demand. Two-thirds of candidates identified that the positive value for electricity made it a normal good. The most common mistake was to select D identifying that demand was price inelastic when in fact it was income inelastic.

Q4 presented a diagram to illustrate an external benefit of consumption diagram. Candidates performed well on this question with more than three-quarters able to successfully identify the correct area of welfare gain. Where in the relatively rare case the answer was incorrect candidates tended to select the incorrect area for welfare gain.

For Q5 Candidates tended to perform well and were able to identify that the tradeable pollution permit scheme saw the price increase because fewer permits were issued.

Q6 was a challenging question for many exploring the concept of diminishing marginal utility. Most were able to identify that diminishing marginal utility occurred when the fourth glass of fruit juice was consumed. It was common for candidates to identify that the movement to 5 glasses saw diminishing marginal utility when in fact this indicates where decreasing marginal returns occurs.

Section B

Q7 asked learners to draw a diagram to illustrate the impact of the introduction of a minimum price for milk in India. Most drew a supply and demand diagram and drew the original equilibrium price and quantity accurately. Most could then draw the minimum price above the equilibrium. Most learners drew the quantity demanded and supplied at the minimum price. It was less likely to see the learners achieve the final mark for showing the area of surplus/ excess supply.

Q8 explored a topic that was found to be challenging when tested in previous series. It was pleasing that the performance on this topic, market bubbles was much better this series. To achieve the knowledge mark most identified the role of speculators in pushing up house prices and that the price was above the true value. Less commonly learners identified that this was a market failure. For application most made reference to the house prices in Munich doubling and that it was the city with the highest risk of a market bubble. Less commonly learners made reference to the bubble being likely to burst and prices were likely to fall which was awarded as application.

Q9 asked for candidates to explain one reason why the price elasticity of demand (PED) for residential gas is -0.1. It was common for learners to define price elasticity of demand but this was not rewarded as an understanding of inelastic demand was needed. Those that defined that inelastic demand as a value between 0 and -1 were rewarded. Most were able to identify that the value of -0.1 makes it inelastic. The most common reason given was that residential natural gas is a necessity or that there were no substitutes for the good. A small number considered the fact that a relatively small proportion of income was spent on this item as an alternative acceptable reason. It was rare for the final mark to be awarded and this tended to be when they explained that a given increase in price leads to a smaller reduction in quantity demanded. The question had the lowest mean score for Section B.

Q10 provided data on the price and quantity consumed of sugar. This needed to be used to calculate the price elasticity of demand. Most learners were able to successfully calculate the correct answer to achieve full marks. Commonly those that got the wrong answer completed the PED calculation the wrong way round. It was pleasing how many accurately calculated the percentage change in quantity demanded and price. One common error was to omit the minus figure in the answer. With the price rising and quantity falling the PED value has to be negative. It is important to remind learners when calculating the PED they must include the negative sign in there final answer. This was the question with the highest mean score in Section B.

Q11 The question looked at cross elasticity of demand (XED). The value of the cross elasticity of demand for meat with respect to fish was given. Candidates needed to explain the impact of a 10% increase the price of fish on the demand for meat. Most candidates were able to define or offer the formula for cross elasticity of demand accurately. The majority also identified the two goods as substitutes given the positive value of the XED. Many then calculated the percentage change in the demand for meat by rearranging the formula. The final mark which needed them to identify that the demand for meat increased was less commonly achieved.

Section C focused on the materials in the source booklet that related to the markets for cotton and clothing.

Q12a required a definition of indirect taxation. Most correctly defined it as an expenditure tax which was awarded one mark. A significant number used the example from Extract B where Ireland was proposing an indirect tax on clothing related to the external costs they cause. Another common approach was to identify that indirect tax can be ad valorem or specific taxes or offering examples such as VAT or excise duties. More than half of candidates achieved full marks on this question.

Q12b asked learners to explain the difference between positive statements and normative statements. Most could correctly define positive statements making reference to that fact the statements can be proven or verified using data. Most defined normative statements accurately as having a value judgement. Where candidates performed less well is making reference to the titles. Some made reference to normative and positive statements within the Extracts which was not rewarded. Others just said the title for Extract A was positive and the title of Extract B was normative which whilst true was not sufficient to access the two application marks. They needed to explain why Extract A was normative. The better responses made reference to the fact that you could check the price of cotton to verify that it has increased, or better still that you could check the Figure. The explanation for Extract

B was better as candidates were able to identify that it is the word should that implied it contained the value judgment.

Q12c needed an analysis of two reasons why the price of cotton increased. Candidates were typically able to access the first mark by drawing the initial supply, demand and equilibrium. Pleasingly most shifted demand to the right and supply to the left to access the two application marks. The analysis marks were also commonly awarded as candidates were able to identify why demand rose and supply fell. The final equilibrium was also commonly awarded. A common issue was the shifts and demand and supply were drawn on separate diagrams meaning the final equilibrium was not awarded. Impressively, half of candidates achieved full marks on the question.

Q12d was an examine question that required some evaluation. It was this element that was commonly omitted. Most could define external costs accurately. Many drew a diagram although not required and rewarded for accurately doing so. The candidates did very well at making explicit reference to the data in terms of the amount of waste water and carbon emissions associated with the production of clothing. What was less well done was the analysis of how third parties were affected. Evaluation often focussed on the difficulties to quantify, how it can take a long time for the problems to emerge and the external benefits associated with clothing production. A commonly attempted response was that the government could put in place a policy which was not rewarded.

The final question in section C, Q12e required a discussion of the impact of the removal of the subsidy paid to clothing manufacturers. Most defined a subsidy accurately. Most attempted a diagram. The biggest issue with this essay was that a number discussed in detail the introduction of a subsidy which was clearly not the question. Where candidates did answer the questions they tended to shift supply appropriately and looked at the impact of this on consumers in terms of lower quantities, higher prices and lower consumer surplus and on producers in terms of lower revenues and profits. Diagrams needed to make it clear that the supply was shifted left or that the price increased or quantity fell. This was not always clear although often the supporting write up explained what they were doing. Evaluation tended to focus on the size of the subsidy removed, the benefits of the government having money available to spend elsewhere, the demand for clothes likely being inelastic meaning little reduction in quantity despite higher prices.

Section D had a choice of two essays. Q14 was the more popular question on evaluating ways that would encourage and enable rational decisions. Q13 required an evaluation of the possible benefits of an economy moving closer to free market economy. Most defined the free market economy accurately making reference to limited government intervention and the focus on the price mechanism. There was interesting work on how markets work to clear themselves through the invisible hand. There was good work on productivity, choice and innovation. In each case there was a need to explain why this happens and how the economic agents benefits. The evaluation tended to focus on market failures that might emerge, such as the non-provision of public goods, information gaps leading to under or over consumption and external costs. Candidates tended to better on this essay.

Q14 again saw many not reading the question closely. Many appropriately defined rational or irrational decision making accurately. They would then give examples often from the stem when we might not act rationally. The next part of the response would typically then identify reasons that consumers do not act rationally. However, for many this is where the focus of the essay was. This limited the response to level 1 unless they went on to discuss the ways that consumers could be encouraged to act rationally. It was also important to ensure that the way was not just identified but how it would lead them to act more rationally that was required. Evaluation on this question tended to focus on why people will continue to act irrationally or that it may in fact be irrational not to change.

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 minimum price diagram only, many however wrote at length. All marks are available for the diagram. However, the write up was often used to identify the excess supply which was rewardable. Most candidates were correctly able to draw a supply and demand diagram with the original equilibrium. Some omitted this but given the question asked to show the impact of the introduction of the minimum price it was important to show this to see the position before it was introduced. The minimum price was normally accurately drawn on the diagram above the equilibrium price. A small number drew the minimum price line below the equilibrium price but it is important to remember that the minimum price is put in place because it is felt that the equilibrium price is too low. In this case in the market for milk the price was felt to be too low with many farmers making a loss. When showing the final equilibrium position it is helpful to identify the quantity supplied and demanded and the size of the excess supply/ surplus.

Q8, required an explanation of what was meant by a market bubble. There were two knowledge marks available and two application marks. To access the knowledge marks most made reference to the importance of speculation in creating market bubbles. Many referred to the price being above its true value. The other way to access a knowledge mark was to refer to market bubbles being a market failure. Using the stem to identify why there might be a market bubble in Munich achieved the application marks. Nearly all identified that the average price had doubled in 10 years. Less common they identified that it had the highest risk of being a housing bubble. The other way to access the application mark was to explain how market bubbles can burst and the price can fall rapidly. It is important that candidates understand that the example given on the housing market in Munich should be the focus of application and other examples were not rewarded.

Q9, gave the price elasticity of demand for residential natural gas at -0.1. Candidates needed to explain one reason why the price elasticity of demand was -0.1. Whilst many learners defined price elasticity of demand it was a definition of inelastic demand that was rewarded. Most stated that price inelastic demand has a value between 0 and -1. Others explained that an increase in price will lead to a proportionately smaller decrease in quantity demanded. There was then a mark for the reason it is inelastic and most referred to it being a necessity. Some referred to there being few substitutes for the good and fewer referred to spending on residential gas being a relatively small proportion of income. All were acceptable reasons. The analysis mark was often not achieved. Where it was they explained that when the price of residential gas increases people will only reduce consumption by a less than proportional amount. Many referring to people still needing the gas for heating and hot water. The application mark was awarded where they identified the value of -0.1 made residential natural gas price inelastic.

Q10, involved calculating price elasticity of demand 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 demanded and price and could achieve a mark for each. Unfortunately, a number calculated the formula the wrong way round so lost the final mark. The PED value calculated is negative and this needed to be in the answer to achieve full marks. Where it was omitted candidates were awarded 3 marks. It is important to note that the PED value must not have a percentage sign and including one with the correct answer meant candidates achieved 3 marks.

Q11 needed learners to explain the likely impact of a 10% increase in the price of fish on the demand for meat. The knowledge mark was awarded for an accurate definition or formula for cross elasticity if demand. It was pleasing that so many calculated the percentage change in the quantity demanded of meat as 1.3%. A common comment was that the demand changed by 1.3% which was not specific enough- it needed to make reference to the fact the demand increased for meat for an additional mark. The final mark was for identifying the two goods as substitutes.

Section C, the data response section is based on information provided in the source booklet. The Extracts focused on the markets for cotton and clothing.

Q12a, asked for a definition of ‘indirect tax’. Performance on this question was pleasing. Most wrote that it was an expenditure tax, but similar versions that as tax on consumption or goods and services were also accepted. Most commonly the second mark was achieved by making reference to it being ad valorem or specific taxes. Others offered examples such as VAT and excise duties and were rewarded. Extract B referred to the indirect tax on clothing being considered in Ireland and was rewarded also. Some candidates stated that it was not direct or paid on income and these responses were not rewarded.

Q12b, required learners to explain the difference between positive and normative statements. Most could accurately define each. Most making reference to positive statements being supported by evidence and normative statements being based on value judgements. The question asked them to make reference to the title of Extract A and B. A number of candidates gave examples from within the Extracts but this was not rewarded. Many just identified that Extract As title was positive and Extract Bs title was normative but no marks were awarded for this. The candidate needed to explain what made it positive or normative. Most that did this explained that Extract As title was positive as you could use Figure 1 or find data to verify or prove this increase in price. For Extract B being normative most referred to the word should making it normative which was rewardable.

Q12c, the question required analysis of why the price of cotton increased. Candidates could normally draw an initial supply and demand curve with equilibrium price and quantity to gain the first mark. Most drew the demand curve shifted to the right and the supply curve shifted to the right for one mark each. A significant number continue to draw these two shifts on separate diagrams. When it comes to rewarding the final equilibrium this is only rewarded when the final equilibrium is draw on the diagram where both supply and demand have been accurately shifted. It was helpful that candidates only tended to draw the original and final equilibrium positions. The final two marks were awarded for reference to the two reasons. The increased demand for face masks and surgical gowns and decreased supply due to the weather in Pakistan. Where candidates shifted only one curve they could still achieve 5 marks if they also used the data to explain the change in the price and made reference to both the reasons.

Q12d, asked students to examine two external costs associated with the production of clothing. A definition of external costs was rewarded as was external costs diagram. Many explained in detail the diagram but only one mark was available for this as it did not help to examine external costs. Candidates typically explicitly used the data presented in Extract B, for example, making reference to the levels of carbon emissions and waste water. To gain the knowledge and analysis mark they needed to explain how the third parties were affected. For example, the carbon emissions were linked to global warming and this linked to the impact on sea level rises and flooding of those near the coast. This gained two marks. Being an examine question the candidates were required to offer evaluation. Many focused this on the external benefits associated with the clothing industry. Other approaches considered the difficulty in measuring the size of external costs and the fact that the costs often only emerge in the long run.

Q12e, involved a discussion of the impact of the removal of the subsidy paid to Indian clothing manufacturers on consumers and manufacturers. Most defined subsidy accurately. Many could accurately draw a subsidy diagram. Of course being the removal of the subsidy they needed to draw supply shifting left. Too many completed this whole response focusing on the introduction of a subsidy which could not achieve above Level 1. When considering the impact on consumers most focused on the higher price and reduced consumer surplus. When looking at manufacturers most made reference to reduced revenues, profits and the possibility of firms existing the market. Those making reference to other economic agents must remember the focus of the question is on the impact on consumers and manufacturers. The evaluation offered tended to focus on the government saving money meaning funds can be used elsewhere. Many considered that clothing demand is likely to be price inelastic meaning only a small fall in demand in response to the price rise.

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

Q13 required an evaluation of the possible benefits of an economy moving closer to a free market economy. Most defined free market economy making reference to the price mechanism and lack of government. Many benefits focused on the benefits of the marking clearing itself when in disequilibrium. Other good work focused on improved productivity, choice, incentives to work hard and innovation. Whilst most could identify these there is a requirement to offer detail on why these are benefits. It is also useful to give real world examples in the essay. Conclusions focused on market failure and how the free-market economy would be less likely to supply these. Key is the need to explain why this will be problematic. The other approach was to consider the problems for free market economies when there are global financial crises or global health crises.

Q14 required an evaluation on ways that would encourage and enable consumers to make rational decisions. Most defined rational or irrational behaviour. Most referred to examples given in the stem in terms of in banking and broadband where people seem not to go for the best deal that would maximise revenue. Unfortunately, too many then focused the essay and why people do not switch meaning they could not achieve above level 1. Only when candidates identified ways to encourage people to be rational could credit be awarded at the higher levels. Most focused on the provision of information. It was important to give detail on how this would work and how this would help encourage people to make more rational decisions. Evaluation focused on the fact people might still not make rational decisions or that in fact it was rational not to switch as costs of doing so outweighed any benefits.

Paper Summary

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

Section A:

Multiple Choice Questions

• The functions of the price mechanism question was the least well perming question and may need additional work in centres. Especially the need for them to understand that the price mechanism does not involve the government.

• The topic of diminishing marginal utility was challenging with a significant number not being able to select the correct answer. Many seemed to confuse decreasing and diminishing marginal utility. It would be useful for centres to work with learners on this question to explain why B is the correct answer.

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.

• Q10 when calculating values of price elasticity of demand it is important to remember that the value will always be negative and to include this on the response.

• In Q11 many identified the change in demand but it was important to say whether demand for meat increased or decreased.

Section C: Data Response

• On Q12(c) when asked to analyse why the price fell the Extract referred to both conditions of supply and demand so both needed shifting in the diagram.

• On Q12(d) when asked to examine the external costs it is important to explain how they affect third parties.

• On Q12(e) it was important to look at the impact of the removal not introduction of the subsidy.

Section D:

Essay

• Define the key terms relevant to the question

• Diagrams should be drawn where helpful and many students successfully incorporated these especially in Q13.

• It was common on Q14 for learners to consider why consumer may not be rational when they needed to focus on the ways to make them to be more rational.