Examiners' Report

Principal Examiner Feedback

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Pearson Edexcel Advanced Subsidiary in Economics (8EC0/01)
Paper 1: Introduction to Markets and Market Failure

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Introduction

This was the fifth 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 education, 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. 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 allocation of resources 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. There was a recognition that a flexible response to this question could gain high marks in multiple ways. 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 the skill either missing or at Level 1 evaluation, which is often generic. For top level

evaluation, ensuring it was well explained and in context was required. Centres may wish to practise 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), 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. This is, however, a recurrent problem.

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 and accuracy in labelling, as well as a careful explanation of them. The performance on individual questions is considered in the next section of the report.

Section A:
Multiple-choice and short-answer questions
A significant number of candidates were clearly well prepared and demonstrated a strong understanding of the specification and the techniques involved in answering the questions. The multiple choice questions provide 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. Calculations should always be double-checked and full working should be shown in case of arithmetical errors.

Section B:
Data response questions
6(a), exploring the relevance of PED to English universities, afforded candidates to consider the importance of 'price' within a range of other factors affecting university attendance. 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), which considered private and external benefits accruing to education. Candidates were usually able to identify one factor, then substantiate it from the extract or figure in order to gain the application mark. Analysis of how the benefit linked back to the question was sufficient to gain the final mark. 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.

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) (whether government intervention can correct market failure) proved to be significantly less popular than question 6(f) (the advantages of a free market approach).

Question 1 (a)

Candidates typically performed well on this question, with most able to identify what the key features of a free market economy are. Typically a recognition of the interaction of supply and demand or minimal government intervention were typical responses.

Question 1 (c)

It was important in this question to make the comparison between a free market and a command economy. Confident candidates were able to illustrate a 'problem' with the command economy which market forces 'solved', and many characteristics were clearly in evidence.

Question 2 (b)

Though many candidates were able to achieve the mark available here, lack of precision in exploring the concept of total revenue was an obvious issue for many. Typically, we were looking for some link to the data provided, and perhaps manipulation of it to show why firms might try to reduce PED.

Question 3 (b)

This question was a challenge for some. Though loft insulation is mentioned in the question, it was not necessary to discuss it exclusively. Candidates could access the marks by exploring any opportunity cost to government form such a subsidy, as long as it was clearly explained with a relevant example.

Question 4 (b)

It was important that candidates were able to identify why specific taxes as per unit rather than *ad valorem*, are used in a market. Often products have both VAT and a specific tax levied on them, and it is important to explore why this is the case. As usual, a relevant example is crucial for application.

Question 5 (a)

Strong candidates were able to express clearly what government failure is, in terms of a net welfare loss caused by the said intervention. It is important not to confuse this with a market failure.

Question 5 (b)

Candidates were able to recognise the fact that government support is necessary because of the scale of the project. However, it is crucial to recognise that public transport infrastructure is not a public good per se. Rather, such infrastructure has large positive externalities in consumption, whilst being excludable and rival.

Question 6 (a)

This question required candidates to consider how the price low price elasticity affected demand for university places. The data suggests that students are not particularly price sensitive, though such statistics may different as we consider different socio-economic groups in more detail. Good responses could clearly draw the conclusion that universities had considerable flexibility in their potential to set prices to increase total revenue.

Question 6 (b)

Candidates performed less well on this question, though there were many strong responses that explored whether giving such support to students from low income backgrounds was itself not a waste of scarce resources. Many candidates could also identify that students from low income backgrounds could be dissuaded by the thought of significant debt. To gain high marks some use of a diagram such as the PPF would sharpen the analysis, whilst allowing candidates to showcase their broader economic knowledge.

Question 6 (c)

As been discussed earlier, many candidates could explain the private benefit by using the salaries shown in Figure 1, whilst being able to illustrate the third party effect of probable higher tax revenues accruing to graduates as being a benefit to society as a whole.

Question 6 (d)

This question was a four-mark calculation based on the manipulation of student loans data. 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. There were still errors, nonetheless, where percentage changes were clearly confused.

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 question asks candidates to discuss the benefits to universities of such an opportunity and many candidates were able to confidently explore to chance to increase the quality of facilities and to pay higher salaries to those sectors where demand is increasing. There was a recognition that subjects providing a greater future return to graduates should, perhaps, be charged fees more appropriate to this potential, whilst less lucrative degrees may be priced more appropriately. Throughout, however, there was a recognition amongst candidates that students from less well off families may struggle to gain access to the more expensive degree courses, something that could widen the gap between the wealthy and the less wealthy.

Question 6 (f)

This question was reasonably popular and allowed candidates to consider the merits of a free market approach where state intervention is more usually the norm. the free market approach to education is explored throughout the data, and the use of tuition fees is already a move towards that outcome. Greater reliance of differential course fees is another example. Candidates did not have to consider the 'market' for tertiary education and could have explored schools just as easily. It is important to note that a diagram showing the price mechanism at work in this sector raises a series of questions. Schools, as we know from Finland and from the Netherlands, do not have to be exclusively state run or privately run. It is crucial, however, that candidates confidently explore the problems of an overreliance on the market in the face of significant positive externalities in consumption. The question of equality of access is also highly significant. The UK's large independent sector is a good example in this regard.

Question 6 (g)

This was a highly accessible question considering the role of government intervention in education. Nonetheless, perhaps because of its slightly more theoretical premises, it proved to be less popular than 6(f). There are numerous failures alluded to in the extracts, particularly asymmetric information, and inequality. 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 education 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 education sector. This would require government intervention of some kind to correct this market failure. The key concept of government failure could then be used to consider whether governments could actually solve the problem created by the market. Strong candidates could comfortably explore the problems of state education and whether a 'one size fits all' approach is appropriate where education is a state monopoly.

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.

• Always refer to the information provided explicitly, it is better to refer to specific numbers, for example the price elasticity data in 2(a) could be used to calculate application marks in 2(b).

• Know the difference between income and price elasticity of demand.
• Ensure candidates practise 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. Positive externalities in consumption are important for both 6(f) and 6 (g).

• 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 production possibility frontiers 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 education it is the employer who benefits from a more productive workforce.

• 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 a crucial concept in education provision and affects both producers and consumers. Candidates should be encouraged to go beyond the extracts with your their examples too.

• Public services such as HS2 were often confused with public goods such that are non-rival and non-excludable. Education 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 advantages of free markets but *also* their disadvantages, as asked about in 6(f) should be well grounded. Knowing about asymmetric information and a range of externalities is crucial.