

Examiners' Report

June 2016

IAL Economics WEC01 01

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Introduction

This is the sixth series of the IAL Economics 'Markets in Action' paper and there was a significant increase in the numbers sitting the paper compared to the previous June.

There was also an improvement in the standard of work produced. The performance of candidates on the supported multiple choice sections was further improved compared to all previous series. Overall, the paper was accessible for all candidates, all typically being able to achieve some marks on each question.

In the supported multiple choice section, candidates were usually able to pick up two or three marks for identifying the correct key with a definition and some explanation offered.

Question 3 on the impact of the removal of a maximum price, Question 7 on the impact of a reduction in production costs, and Question 8 on buffer stock tended to cause some problems for candidates. On Question 3 many were unable to identify that the removal of the maximum price will see the market return to equilibrium, therefore were unable to fully access marks. On Question 7, a surprising number shifted demand rather than supply in response to the falling costs. Question 8 on buffer stock saw some confuse a minimum price and then looked at how this would cause excess demand rather than supply. Even though these questions were found to be more challenging the average scores on these questions were between 2 and 3.

The data response section had similar numbers attempting each question with a slight preference for Question 9 on the housing market over Question 10 on the car market. Candidate performance on both questions was broadly similar with those opting for Question 9, doing only slightly better. There was a further improvement in the quality of questions worth 14 marks. Candidates performed better in their ability to demonstrate knowledge, application and analysis. Many more offered evaluative points. Answers tended to use the data response material in a much better way, with explicit references far more common. The quality of evaluation was also stronger with candidates using relevant evaluation points that were well developed. These were often developed from information provided in the data.

Diagrammatic analysis from the higher achieving candidates was good and it is the effective use of these diagrams which enabled many candidates to achieve higher scores. Accurate diagrams were far more common this series and candidates were better at labelling all axes and curves and explicitly referred to these in their response. Where candidates need to be mindful is in using the precise diagram. For example, in the question on an indirect tax reduction some showed a tax rise.

Most candidates were able to complete the paper in the time available although some clearly began to run out of time as final responses were often briefer and occasionally unfinished. However this was less common than in previous exam series. It is highly recommended that candidates practise the Unit 1 past papers under timed conditions to strengthen exam skills.

Question 1

The question looked at the opportunity cost caused by a movement along a Production Possibility Frontier. Most candidates were able to define a PPF. The key to achieving this mark is the need to talk about the maximum combination of goods that can be produced but it is also important to make the point about using all available resources. Most accurately defined opportunity costs. Accessing the final mark for the explanation was more difficult. Some identified that they gain 40 units of capital goods and sacrifice 20 units of consumer goods. A useful method here was to show the calculation used to evidence the opportunity costs, for example $120 - 100 = 20$.

Some rejected alternatives by showing the opportunity costs were either in terms of capital goods or where a different number was being foregone.

The candidates performed well on the question with a significant proportion achieving full marks.

An opportunity cost is the benefit foregone from the next best alternative. At Y, the economy can produce 120 consumer goods with 50 capital goods. Once it shifts to X, the economy can produce a lesser value of 20 units of consumer goods (opportunity cost) with a higher value of 40 units of capital goods. This difference in consumer goods production probability ($120 - 100 = 20$) equates to 20 therefore C is correct. Answer A is incorrect as shifting from W to V leads to an opportunity cost of 50 units.



ResultsPlus Examiner Comments

Accurate definition of opportunity costs. Shows they are giving up 20 units of consumer goods to gain 40 capital goods. Rejection of B also credited as they show it is because the opportunity cost is higher at 50.



ResultsPlus Examiner Tip

Remember to show the gain when foregoing the consumption of a good.

Effective use of rejection of A and B.

Production possibility frontier shows the maximum output combinations of two goods when all resources are fully and efficiently used. The answer A is eliminated as from w to v the opportunity cost is 50 consumer goods not 20.

Answer B is wrong as well as from w to x there is an opportunity cost on capital goods rather than consumer.

Answer C is the correct as from y to x there is an opportunity cost of 20 units of consumer goods.



ResultsPlus

Examiner Comments

The definition of the Production Possibility Frontier is accurate and includes both the required elements in terms of maximum output combinations and that resources are fully and efficiently used. Rejection of A awarded for identifying that the opportunity cost is 50 consumer goods. Rejection of B awarded for identifying that the opportunity cost is in terms of capital goods. Rejection of C not awarded as they would need to explain where the 20 units of opportunity costs come from. $1+3 = 4$

Question 2

The vast majority defined a mixed economy and did this by referring to the involvement of both the private and public sector. Some referred to it involving the free market economy and command economy. This definition was not accepted.

A surprisingly large number did not define public goods. Those that did normally referred to non-rivalry and non-excludability. A common response was that public goods are not provided due to the free rider. This was not awarded a mark. The key here is that candidates needed to explain how the free rider leads to private sector firms not providing such goods. Candidates need to explain that it is possible for people to consume the goods without contributing as it is difficult to exclude others from benefiting from its consumption.

The simplest way to pick up maximum points was to define mixed economy and public goods and then to give an example. Public good examples commonly awarded marks include defence, police and streetlights. A worrying number referred to examples which are not public goods like health care and education. These examples merit goods but do not have the non-excludability and non-rivalry of public goods.

The response effectively uses rejection to pick up two marks.

A mixed economy is where there is ~~the~~ ^{some} gov. intervention but the market ~~is~~ still operates with the price mechanism.

The answer is not A because ~~these~~ ^{goods} with negative externalities are harmful to society ($MSB < MPB$), therefore they are not subsidised; the gov. wants to reduce Q_s , not increase it.

The answer is not B because the price mechanism is ~~one of~~ the market's way of allocating resources and happens without the gov.

Public goods ~~are~~ have non-rivalry and non-excludability ($MSB > MPB$), so the gov. provides them using funds from taxation, in the interest of social welfare.



ResultsPlus Examiner Comments

Definition of mixed economy is sound. Rejection of A explains why the government wants to reduce consumption of negative externalities. Rejection of B clearly understands that the price mechanism happens without government intervention. Defines public goods for the final mark.

1+3 = 4



ResultsPlus Examiner Tip

Do not just state that something is not right but explain why it is not right, for example in rejecting A.

The answer focuses on explaining the choice of the right answer.

Mixed economy is an economy that the price mechanism interacts with government intervention to allocate resources efficiently and fully. A public good is a good which has the characteristics of non-rivalry and non-excludability. For example street lights. C is wrong because goods with external benefits should be promoted by imposing subsidies not taxes.



ResultsPlus Examiner Comments

The definition of mixed economy identifies that both the government and price mechanism operate (for 1 mark). They identify that public goods contain both non-rivalry and non-excludability for the second mark and get the final mark for the example.



ResultsPlus Examiner Tip

The rejection of C would need to explain why they would subsidise as the external benefits would help third parties.

Question 3

Candidates found this question more challenging. Marks were available for both a definition and for reasons for a maximum price but fewer achieved these marks. Many confused it with a minimum price referring to a floor price rather than a ceiling price. Explaining that the market would return to the market equilibrium was referred to by many. A straightforward way to access the mark was to refer to the old and new price, quantity demanded or supplied. Candidates should also be encouraged to draw an arrow between the old and new prices. It was pleasing to see the number able to explain that demand would contract and supply extend given the rising price.

The maximum price in a market is the highest legal price suppliers can supply and consumers can purchase at. The market equilibrium price however, is set by market forces and is where demand and supply meet and this is higher than the floor price. Once the floor price is removed, consumers and producers have to supply and purchase at P_e and hence there is a rise in price from P_1 .



ResultsPlus Examiner Comments

A good definition of maximum price. Clear understanding that price moves to the market equilibrium.



ResultsPlus Examiner Tip

It is worth noting the original size of excess demand and shortage before the maximum price.

(ceiling price)
A maximum price is the ~~the~~ highest price which can be paid for a good. The price can paid for goods can not exceed the maximum price.

As a result of the maximum price (P_1) removal, the price rises to P_e which is the equilibrium price. This is because due to the removal of the maximum price P_1 , any price above P_1 (such as P_e) can now be paid for salt.

Answer B is incorrect because a change in the price from P_1 to P_e will only cause a movement along the supply curve for salt, not a shift.



ResultsPlus

Examiner Comments

Clear understanding of maximum price for first mark. The appreciation that removal of the maximum price will see price rise to the equilibrium at P_e . The final mark is awarded for appreciating that supply extends as we move along the curve rather than shifting.



ResultsPlus

Examiner Tip

Maximum prices in the context of this question are the highest price and would be seen as ceiling. If identifying reasons for such a policy it is worth remembering that the maximum price is put in place to protect consumers from excessive prices.

Question 4

There were two key ways candidates approached this question.

Firstly they would define price elasticity of demand, and use the data to calculate the PED to show it was elastic.

Secondly they would define PED but then calculate the original and new total revenue to show it is rising.

A number accurately calculated the percentage change in quantity and price but put them into the formula often having the accurate formula in their response. It is important that when calculating the total revenue that candidates clearly state the relevant currency.

- 4 Amazon currently sells 100 000 copies per year of an e-book at \$14.99. The company estimates that customers would buy 174 000 copies of the same e-book at a price of \$9.99.

(a) From this information it can be deduced that

(1)

	Price elasticity of demand	Total Revenue
A	inelastic	rises
B	inelastic	falls
C	elastic	rises
D	elastic	falls

Answer

C

(b) Explanation

(3)

$$\begin{aligned}\text{Old revenue} &= 100,000 \times 14.99 = \$1,499,000 \\ \text{New revenue} &= 174,000 \times 9.99 = \$1,738,260 \\ \text{Revenue increase} &= \$239,260\end{aligned}$$

Price elasticity Demand is measured
by = $\frac{\% \Delta QD}{\% \Delta \text{in Price}}$

The answer can not be A as inelastic goods decrease revenue when prices are lowered.



ResultsPlus
Examiner Comments

This approach to the question calculates the original total revenue and new total revenue. Each calculation is accurate and achieves 2 marks. Also achieved mark for formula of price elasticity of demand.



ResultsPlus
Examiner Tip

It is useful when doing calculations to show all workings and vitally important to put in the relevant currency.

PED is a measure of responsiveness of the quantity demanded for a good to a change in its price.

$$PED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

$$\% \text{ change in quantity demanded} = \frac{174000 - 100000}{100000} \times 100\% = 74\%$$

$$\% \text{ change in price} = \frac{9.99 - 14.99}{14.99} \times 100\% = -33.36\%$$

$$PED = \frac{74\%}{-33.36\%} = -2.21$$

PED is elastic as 2.21 is greater than 1

$$\text{Original revenue} = 100000 \times 14.99 = \$1499000$$

~~Total revenue~~

$$\text{change in revenue} = 1738260 - 1499000$$

$$\text{New revenue} = 174000 \times 9.99 = \$1738260$$

$$= +\$239260$$



ResultsPlus
Examiner Comments

Both the formula and definition are offered. 1 mark will only normally be offered for either. The candidate has usefully shown the calculations of the percentage change in both quantity and change in price. They have then put this together to accurately calculate the PED. They have achieved marks for the percentage changes calculated and one for the PED calculated. They have also then picked up marks for the original and new total revenue.



ResultsPlus
Examiner Tip

Remember PED is always a negative number so always remember to put the negative sign in your answer.

Question 5

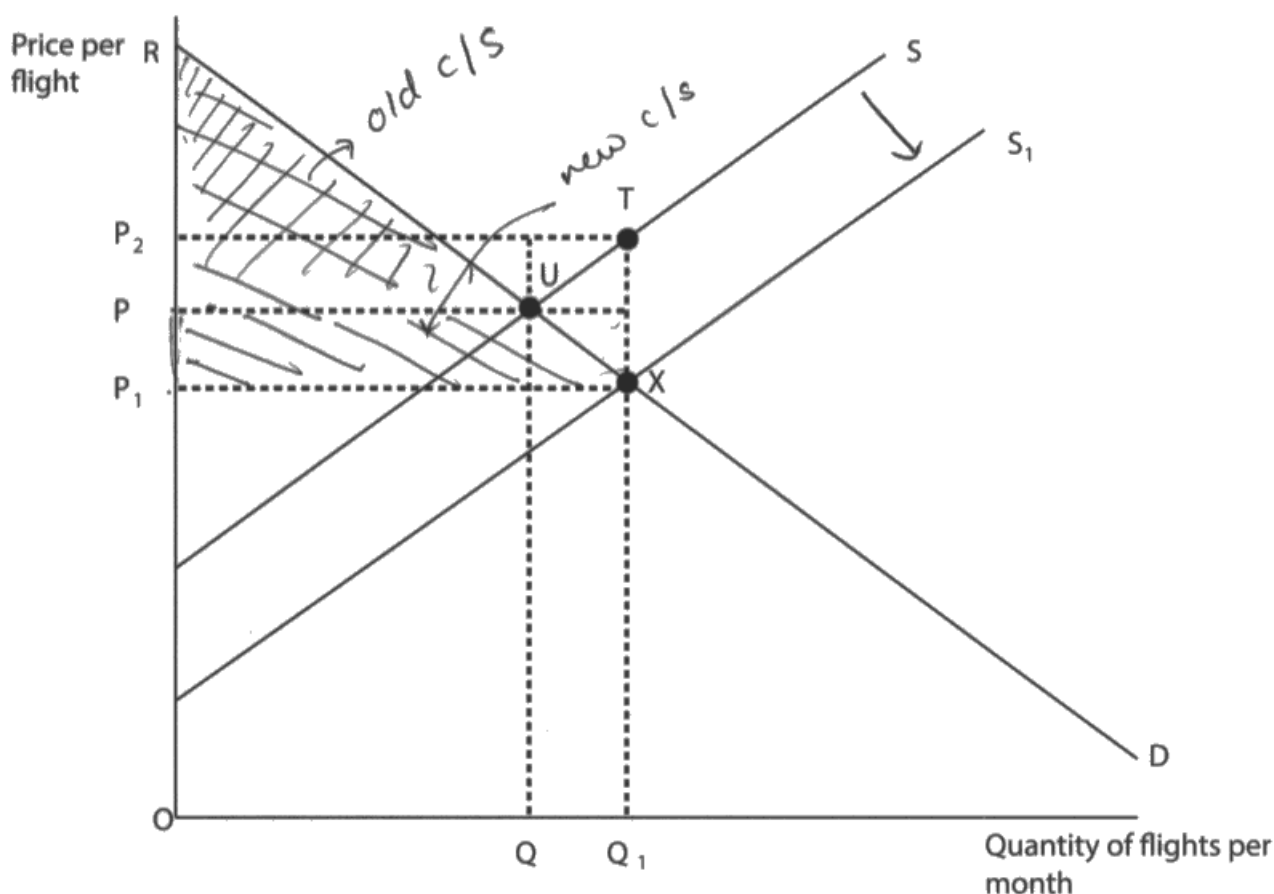
The explanations showed a clear understanding of the Economics underpinning the question but many failed to achieve the final mark for the correct key as they were not careful enough in selecting their answer.

Many correctly defined a subsidy and consumer surplus. They were able to identify the original consumer surplus before the subsidy with many using this to reject A. Commonly they would identify the new consumer surplus area correctly and then select B as the answer. Of course the question did not ask for the new consumer surplus but the change.

It is important that candidates read the question carefully.

There was also some confusion with the consumer subsidy but even then this was not identified in any of the answers.

When labelling the consumer surplus on the diagram it is important that it is not just shaded and is labelled to make it clearer what you think it is: for example, labelling the original, new or change on consumer surplus but writing this next to the relevant area on the diagram.



- A PRU
- B P_1RX
- C P_1PUX
- D P_1P_2TX

Answer

C

(b) Explanation

(3)

A subsidy is a grant given by the government to encourage producers to produce more. Consumer surplus is the difference between what consumers are willing to pay for a product and what they actually pay for it. Answer C is correct as $P_1 R U$ is the old consumer surplus and $P_1 X R$ is the new consumer surplus, therefore the change in consumer surplus equals to $P_1 P U X$. Option A is incorrect as this represents the old consumer surplus.



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Examiner Comments

Having selected the correct answer for 1 mark the candidate then accesses all 3 explanation marks.

The original and new consumer surplus are clearly labelled on diagram and in writing for 2 marks. They have also defined subsidy and consumer surplus for 1 mark each. Note also that they have rejected A but did not get a mark for this as they have already picked this mark up for identifying the original consumer surplus.



ResultsPlus
Examiner Tip

When rejecting answers remember not to use the same argument as used to explain the correct answer or rejecting another answer.

Subsidy is a grant given by the government to encourage production.

Initial consumer surplus: $R \times P_1$

New consumer surplus: $R \times P_2$

\therefore change in surplus = $P_2 \times P_1$

consumer surplus is the difference consumers are willing to pay and the actual market price.



ResultsPlus
Examiner Comments

This is a very efficient response with marks for the definitions of subsidy and consumer surplus. The initial consumer surplus and new consumer surplus are clearly identified.



ResultsPlus
Examiner Tip

Be careful with the definition of consumer surplus. Many have said the difference between the amount they want to sell and the amount they actually sell. This is not good enough as it could refer to the quantity or price. It is better to be specific in terms of the difference between the price they receive and the price they are willing to receive.

Question 6

This should have been a familiar question to candidates as it explored their understanding of cross elasticity of demand by giving them four pairs of goods and they needed to identify the product with a negative cross elasticity of demand. Many could accurately define or provide a relevant formula. It is still common to see candidates refer to the demand of x to the demand of y which is clearly wrong. More care in referring to the quantity demand of good X and price of good Y is needed. Many were able to identify that a negative cross price elasticity would make the product a complementary good. Only the better candidates were able to explain that increasing the price of paint would see a decrease in the demand of both paint and paint brushes making the relationship negative. Many tried to reject B, C and D by referring to the fact they were substitutes. This was not good enough as you need to explain the answer. For example, D is incorrect because desktop and laptops are substitutes as they have a positive cross price elasticity of demand. It is also important to note that this response whilst it could be used to reject D could not be used to reject B and C as it is the same answer. You can only use an explanation once.

Cross elasticity of demand shows the responsiveness of the demand of good Y when there is a change in the price of good X. A negative cross elasticity shows that the goods are complements and must be used together whereas a positive cross elasticity shows that the goods are substitutes and are thus interchangeable. Paint and paint brushes are used together so they are complements, and ~~thus~~ thus have a negative cross elasticity.



ResultsPlus Examiner Comments

As well as the correct answer the candidate has defined the cross elasticity of demand and identified that complements have a negative cross elasticity of demand. They explain the paint and paint brushes are used together making them complements for another mark. No marks were awarded for 'positive XED are substitutes' as it is not linked to the correct key.

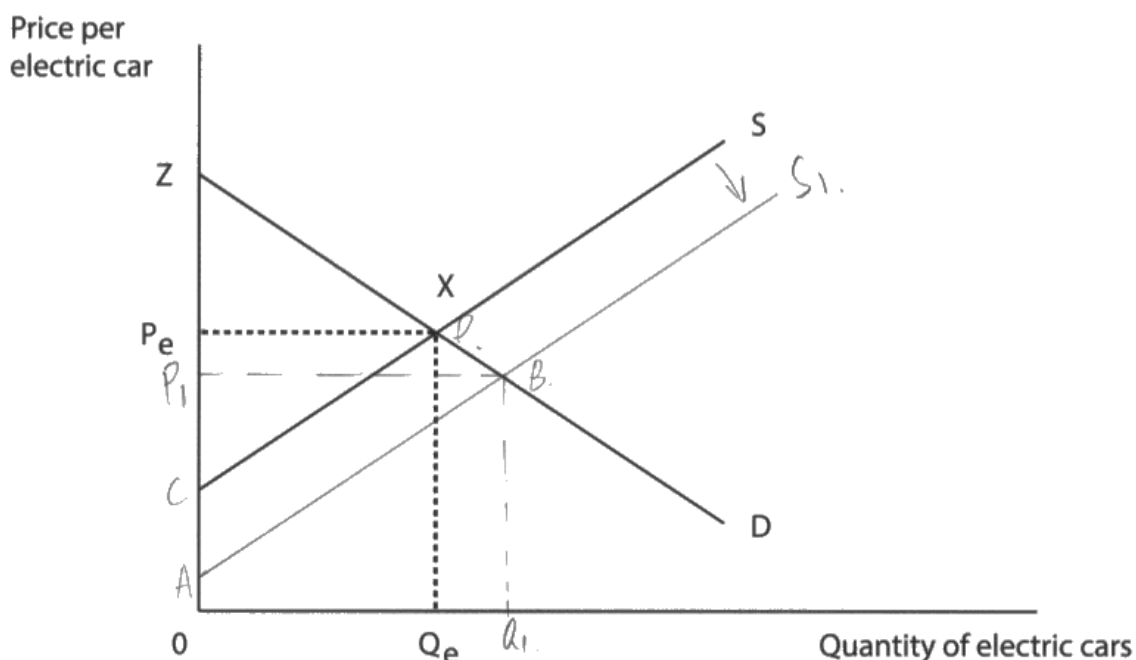
Question 7

This question explored the impact of a fall in the costs of a business. The majority of candidates were able to identify the fact that supply would rise and that the price would fall. Fewer then identified the fact that the producer surplus increased.

Commonly students defined producer surplus, identified that the falling costs of batteries would lower the costs of production. They frequently showed the shift in supply. A surprising number failed to label the new supply curve or where they did they did not always label the new price or quantity which meant they missed out on marks. It is also surprising the number that waste time redrawing the diagram and then showing the shift in supply. I would encourage candidates to annotate and label the diagram given where it is already drawn on the paper.

All the marks could be achieved here through the use of a diagram. 1 mark was awarded for a rightward shift in supply, 1 mark for showing the new lower price and higher quantity, and 1 mark for showing the change in the original and new producer surplus when explicitly labelled.

- 7 The diagram shows the market for electric cars where the initial equilibrium price is P_e and quantity Q_e . (You may annotate the diagram in your answer.)



- (a) Researchers have predicted that the cost of a complete lithium-ion battery pack for electric cars could fall from \$550 in 2014 to \$200 by 2020 and to \$160 by 2025. The impact of this change in costs on the market for electric cars would be

(1)

	Price	Producer surplus
<input checked="" type="radio"/> A	Rise	Rise
<input checked="" type="radio"/> B	Rise	Fall
<input type="radio"/> C	Fall	Fall
<input type="radio"/> D	Fall	Rise

Answer

D.

Producer surplus is the difference between the market price and the price the producer willing to produce. When the ^{cost of} battery pack is decreasing, so the cost of production will decrease, ~~ted~~ lead to an increase in the quantity supply. It shows in the diagram, the supply curve shift rightwards from S to S_1 , the price reduce from P_e to P_1 . And also the producer surplus will ~~increase~~ rise from $CPEd$ to the area P_1AB .



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Examiner Comments

This candidate shows supply shifting right for the first mark. They show the new lower price and higher quantity for the next mark. The inclusion of the arrow is helpful. They also accurately define producer surplus. Reference to the cost of production falling gains a mark also. They have also identified the area of the original and new producer surplus. Achieves full 4 marks.

Question 8

The quality of the responses to this question were good. Most were able to define buffer stock, focusing on it being a system where an agency buys in a surplus and sells in a shortage. They were able to explain the motives for governments in implementing a buffer stock, most commonly referring to reducing price fluctuations. What would support candidates in performing better is explaining why they purchase to reduce the supply and put an upward pressure on prices so they rise above the minimum price. Similarly in rejecting, candidates would be better to explain that if they release stock it would increase supply putting further downward pressure on prices below the minimum price.

There was some confusion regarding the surplus being a point where the price will be below the floor price. In referring to it as a minimum price, as many did, they confused this with a guaranteed minimum price and discussed how the price cannot fall below the minimum price, which was wrong.

8 (a) The operation of a buffer stock scheme for maize means that

(1)

- A stocks are released when there is a surplus of maize x .
- B the price of maize cannot fall below the ceiling price
- C stocks are purchased when there is a surplus of maize y .
- D the price of maize cannot rise above the floor price

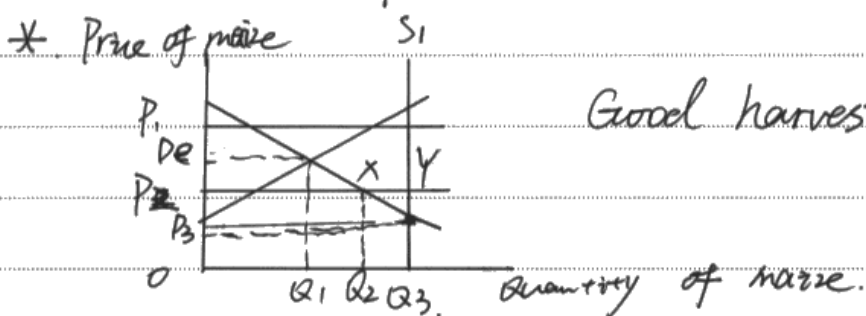
Answer

C

(b) Explanation

(3)

* Buffer stock scheme is a scheme where the agency buys or sells in the open market to stabilise the price.



① There is a surplus of maize at price P_3 .

② Hence government will purchase the maize by quantity $Q_2 Q_3$ at the price P_2 to stabilise the price.



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Examiner Comments

As well as gaining a mark for the correct answer the candidate also achieves a mark for appreciating that the price is stabilised. They have drawn a diagram to show a minimum price, P_2 . They would do better to explicitly identify this as the minimum price. They identify that there is a surplus but would do better to refer to the distance between X and Y. A mark is awarded for identifying that the agency will buy the quantity Q_2 to Q_3 .

Question 9 (a)

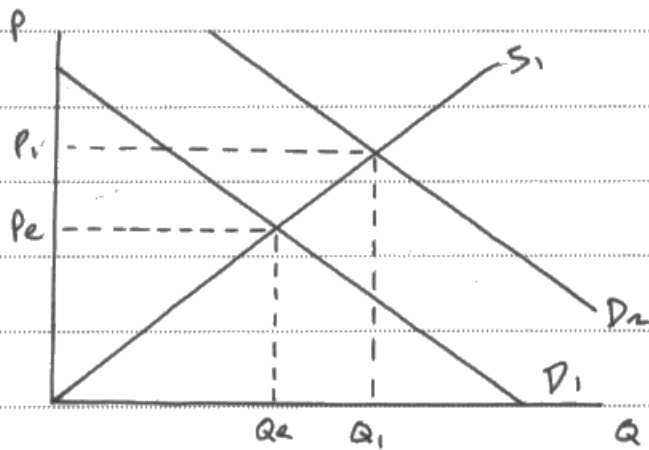
A standard question asking students to identify factors that have led to the rising house prices and to show the impact on a supply and demand diagram.

A number did not offer a diagram which had a significant impact on the score they could achieve. Most diagrams offered had an original price and quantity, supply and demand. Even where they shifted the wrong curve or the wrong direction they were still able to access marks for this.

However the vast majority showed demand shifting right and the corresponding rise in price and quantity. It is worth remembering that if the diagram is labelled S, P and Q then a different annotation is needed, for example S₁, P₁ and Q₁. It is also helpful to draw arrows to show the change in demand, price and quantity.

The question asked candidates to explain the 10.2% rise in prices. It is not good enough to repeat the question if using data; candidates could refer to the actual prices, for example prices rise to £264 899 to access the data mark.

Help to buy, falling unemployment and increased consumer confidence were the correct answers.



House prices increased ~~from~~ by "19.3%" over the year.

Reasons for increase in house prices were ~~are~~ that "48,393 buyers taking advantage of the "Help to Buy". This meant people could more easily acquire a house through only "5% deposit", which increased demand and therefore, its price and QD as well.

Another reason for demand increase, was the fall in unemployment from "132,000

to 2.08 million. This boosted consumer confidence and led to a further increase in demand which pushed up prices.



ResultsPlus

Examiner Comments

Full marks are awarded for the diagram. The candidate has shifted the demand curve in the correct direction and shown an original and new higher price and quantity. They also achieve marks for identifying:

- Help to buy
- The fall in unemployment
- Resulting consumer confidence

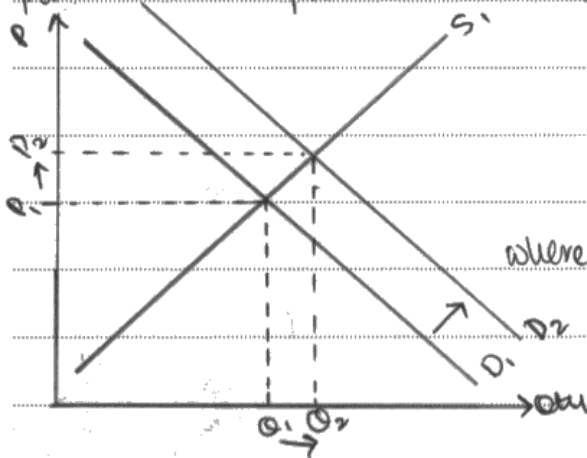


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Examiner Tip

It is best to keep the annotation consistent. Here they have a new higher demand curve at D2 but then have P1 and Q1 for the equilibrium. They did not lose any marks but it would be best to have had D2, P2 and Q2 to be more consistent, as it makes the response easier to follow.

Demand is the ability and willingness of a consumer to purchase a product at a given price and time.



The price of houses increased by 10.2%, because due to the fall in unemployment, where people ^{acquired} ~~required~~ more jobs, which resulted in an increase in their disposable income. With an increase in consumer confidence

as well as an increase in disposable income - the demand for houses went up - which means price will increase since consumers will now pay any amount for the product - ~~to~~ because of their confidence.



ResultsPlus

Examiner Comments

Again full marks for diagram. They identify two reasons for the rise in house prices, falling unemployment and consumer confidence.



ResultsPlus

Examiner Tip

Where the price change is given in the question candidates will not be awarded a mark for stating that price changes. Given the question states the price change is 10.2% they would have to give a different piece of data related to the price change, for example the average price of a house in the UK.

Question 9 (b)

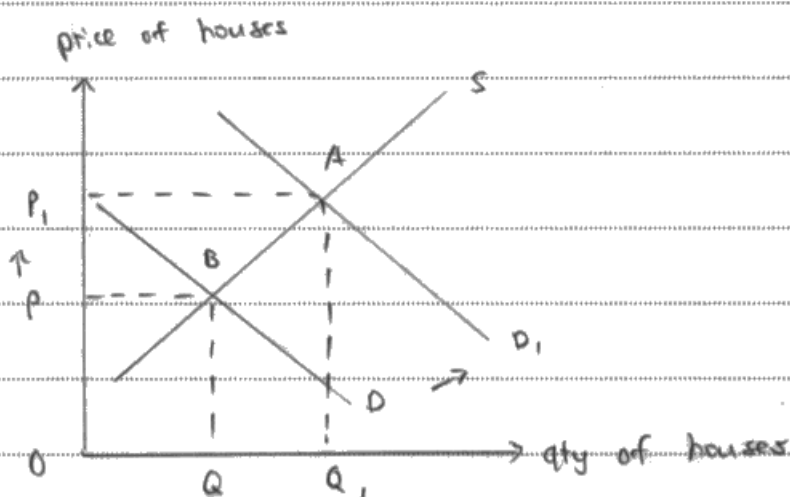
The question looked at the impact of rising house prices on house builders like Redrow. The key points most commonly discussed looked at the impact on profitability and expanding the workforce due to derived demand. The responses that linked these with data from the extract tended to perform solidly within Level 2. Those accessing Level 3 were also able to develop their responses further to access the analysis marks. A pleasing number were able to access evaluation marks. Most looked at issues relating to skills shortages and difficulties in accessing raw materials as outlined in the extract. Magnitude was also often offered with reference to data. Evaluation identifying the evaluation points linked to the data and analysing why this is an issue, helped most access higher marks. This was an accessible question.

(b) With reference to Extract 2, discuss the possible effects of rising house prices on house builders such as Redrow.

(14)

Based on extract 2, lines 1 to 2, average price of a Redrow property increased by 19% to £269000 due to ~~se~~ surging demand for houses.

The first possible effect is it would increase the revenue and profit of Redrow. Based on Extract 2, lines 2 to 3, the company earned record profits of £133 million in 2014, a 91% increase in 2013. The company is now able to increase investment in capital goods. By purchasing modern and advanced machinery, the company can reduce its cost of production due to an increase in productivity. Redrow can also employ highly skilled workforce with the increased profits.



Revenue of Redrow has increased from $PBQO$ to $P_1A Q_1O$.

The second possible effect is employment would increase. Based on Extract 2,

lines 3 to 5, Redrow increased its workforce by 20%, creating 230 jobs for surveyors, planners and marketing experts. The company's expansion may have also created up to 1150 jobs for its suppliers and creators. To meet the increasing demand for houses, Redrow had to expand and increase its number of workers.

However, the increase in profits and revenue depends on the magnitude of increase in demand for houses. In this case, the increase in demand for houses has large magnitude based on Extract 1, lines 1-2 and figure 1. House prices has an annual increase of 10.2% in the UK and house prices rose to £264889 in the UK in June 2014. The increase in profits and revenue is significant as Redrow earn record profits of £133 million in 2014, a 91% increase on 2013, based on extract 2, lines 2 to 3.

Moreover, this also depends on the price elasticity of supply of houses. The supply of houses might be price inelastic in the short run. Based on Extract 2, lines 6-8, house builders struggle to meet demand because there were shortages of bricks and bricklayers. Redrow is also worried about the long term skills shortage which makes it difficult to increase output. Time is also needed for the employment of new workers.

The supply of houses might be price elastic in the long run because there might be workers who have switched to the housing industry from a different industry.



ResultsPlus Examiner Comments

The candidate achieved in the top level for knowledge, application and analysis, and for evaluation. They explicitly refer to data to show the impact of the price changes. When looking at profit they have clearly identified relevant data and explained how profit improves. The diagram is also accurate. They also look at the fact employment will rise with explicit reference to the data. The evaluation is also strong with magnitude discussed with reference to data. They also consider the price elasticity of supply linking this to staff shortages. They achieved 7/8 for knowledge, application and analysis and 6/6 for evaluation.

Question 9 (c)

This question posed a challenge to many candidates. The vast majority could accurately define geographical mobility but many struggled to get beyond this. Most looked at how a rise in progress could affect geographical mobility and said that it would worsen. What they needed to do was look at how house price differences made geographical mobility worse. What was needed was to look at two regions and then to compare the price differences and look at how it might reduce mobility to areas with higher prices. Evaluation was also weak. Most offering it focused on support of help to buy, magnitude, and other factors that affect geographical mobility. This is an area that candidates will need to work on to perform better in the future.

(c) Examine the likely impact of regional house price differences on the geographical mobility of labour.

(10)

Geographical mobility of labour is the ability and willingness of the labour force to move to a different area for work. This ~~is~~ refers to the housing costs; searching costs, transport costs etc. of moving and also social issues such as being unwilling to move away from family and friends.

Regional house price differences such as in the UK where ^{average} house prices in England are £264 889, whilst they are £137 160 ^{in Northern Ireland}, may decrease the geographical mobility of labour if ~~they are moving from~~ people in ~~the~~ Northern Ireland are seeking work in England. This is because house price are almost double, so the cost of a new house is potentially unaffordable. Therefore, ~~workers~~ the ease at which workers can move between jobs is

inhibited as house prices are higher in different areas.

On the other hand, geographical mobility of labour may be increased if people are going from areas which have expensive housing to areas which have cheaper housing as housing changing housing is more affordable. Therefore, it depends where people are moving from and where to.

Additionally, it depends on the type of job people are moving for. If it is highly paid, it may be easier to move as housing costs are not an issue.



ResultsPlus

Examiner Comments

For knowledge, application and analysis they offer an accurate definition of geographical mobility; they then make explicit reference to prices in regions; they look at how it will be difficult for people in Northern Ireland, finding it difficult to move to England as it is unaffordable. Achieves level 2 with one developed reason using both data and analysis. 4/6.

For evaluation they look at people moving from expensive areas to cheap areas and how this is more affordable and how it depends on the job the person does as with higher pay, therefore housing costs are not an issue. 4/5 – full marks for evaluation.

Total = 8/10

Question 9 (d)

Candidates typically performed well on this question. Nearly all correctly defined normative statements, usually referring to the fact they were value judgements. Most were able to define positive statements as statements that can be proven.

The majority of students used the data and correctly identified normative statements often using the clues of 'should' or 'may'. For the positive statements candidates were able to pick out relevant statistics from the data provided. It is important that when responding in the exam candidates refer to the data in the extract mentioned. Many referred to other extracts and were not awarded marks.

(d) With reference to specific examples from Extract 2, explain the difference between normative statements and positive statements.

and has no facts to be proven (4)

Normative statement is a valued judgement. Example: "Government

Should ensure that schools are promoting fulfilling careers".

Positive statement is a value free judgement and can be proven

with facts. "The average price of a Redrow Property by 19% to

£ 269 000.



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Examiner Comments

Accurately defines normative statement as a value judgement and a positive statement as one that is value free or that can be proven.

The examples given are explicit from the data.

Question 9 (e)

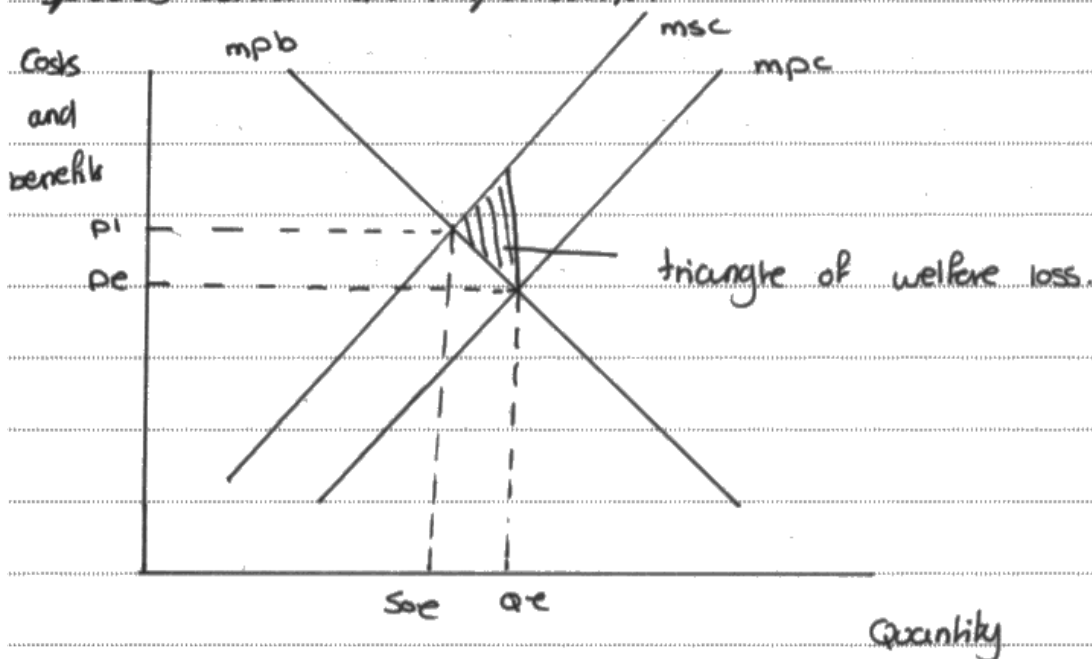
The question referred to the impact of the building of 30 000 additional houses in the countryside. Most used the data effectively looking at the additional 30 000 homes and how it would affect farmland, natural habitats and traffic flows. They often countered this with how the process will put downward pressure on prices and reduce overcrowding in cities. The question requested a diagram and it was often accurately drawn.

(e) Evaluate the likely economic impact of the construction of more houses in the UK countryside. Illustrate your answer with an appropriate diagram.

(14)

External costs are costs ignored by the price mechanism and has third party negative effects.

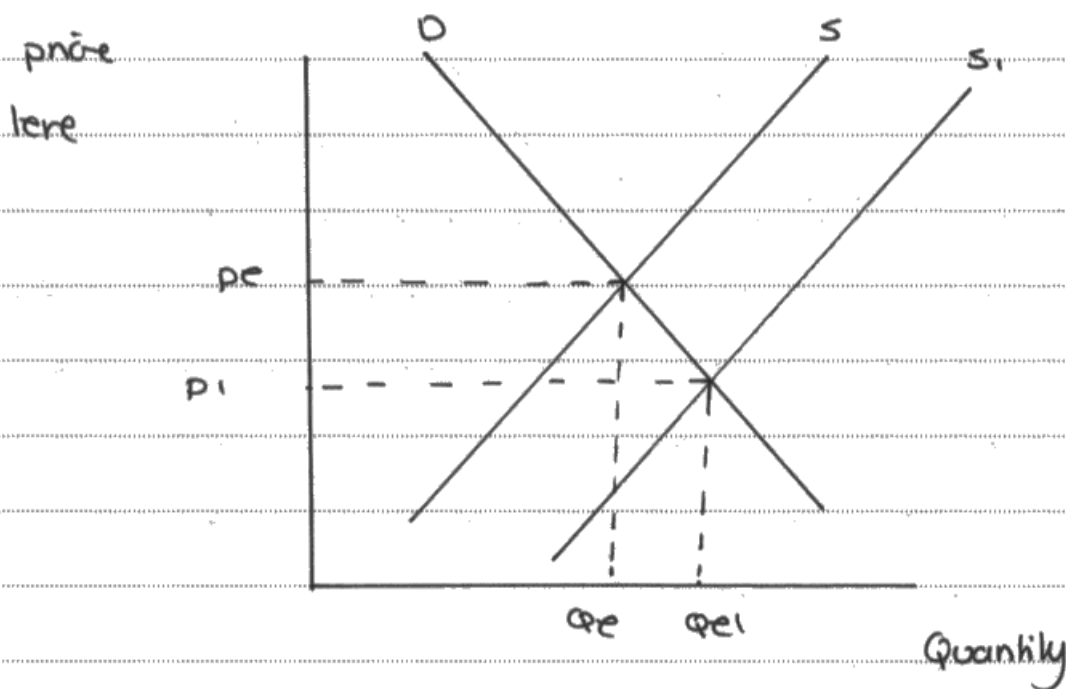
The External Costs caused by an increase in house production are pollution caused by increased traffic which is air and noise pollution and also lead to loss in natural habitat which could endanger specific species which are important.



However, it is difficult to attach a monetary value to the external costs produced. Also, there are some benefits as it says in Extract 3 that 27000 houses were built which means that the supply of houses increased too which reduced house pressures, price pressures and also it reduced overcrowding in city centers.

Further more, building more houses means that jobs need to be created which increases employment and disposable income so more spending in the economy leading to economic growth. Also, Depends on short run and long run effects because in the long run, it could make serious damage of pollution and the destruction of natural habitat so the government could introduce tradable pollution permits so that they can reduce the negative externality. Also, this means that government's tax revenue increases and can be used to compensate the people being affected by the external cost and can try to reduce them.

Supply of houses



Also, depends on the magnitude of the habitat destruction as they may have only destroyed forests that have no living creatures or they may have only destroyed it by a little amount so we won't have that much of an effect on the economy.



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Examiner Comments

For knowledge, application and analysis the candidate achieved in the top level. They defined external costs and looked at how constructing of houses in the countryside would cause pollution including air and noise pollution and a loss of habitat. They also drew an accurate diagram of external costs from the housing marked. 7/8.

For evaluation they make significant, relevant points. Arguments on the benefits of increase supply in terms of lower prices; how the government can reduce pollution through policy; and magnitude of destruction helped to achieve 4/6. Total score 11/14.



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Examiner Tip

Diagrams which are accurately drawn like this with additional features such as welfare loss will typically achieve level 3.

Question 10 (a)

The question needed candidates to identify what had happened to the number of registered car drivers. It is useful here to refer to two dates specifically to show the change. It is also worth noting that it was important to refer to precise numbers for example 29 000 000, rather than just 29. Many refer to the changing costs but again explicit reference to the data would be better. Rather than 'cost of roads is lower' it is important to use the numbers, such as 'moving from 160 to 225'.

An increase in registered cars in the UK may be caused by various reasons. Firstly, the public transport in the UK is very expensive and therefore people may be discouraged to use it. Furthermore, another possible reason may be the increase in real incomes of people. Since public transport is an inferior good ~~people~~ ^{the demand} for it will decrease as incomes rise and therefore people will buy a private car thus increasing the number of registered cars.



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Examiner Comments

Whilst the candidate identifies that the cost of public transport was more expensive, they could have explicitly used the data to give examples of how it has increased over time. Similarly the comparison to cost of car use would have helped. Any work on incomes is not relevant to Figure 1 and Figure 2. Reference to the size of the increase in registered cars would be useful. They receive one mark for this response.



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Examiner Tip

If the question specifically says to refer to particular figures, do focus on these. Many referred to Figure 3 but gained no credit.

The increase cars in register cars on UK Roads ~~mainly~~ mainly due to the increase disposable income of UK citizen and the cheaper cost of owning a car.

In accord to the figure 2. Since 1995, the number of cars registered from 22.4 million increases to around 28 million in 2013.

For the price consideration. As figure 1 indicates that car transport fare grow from 130 to around 200 in 18 years while buses and rail fares boom from 150 to 350. Purchasing cars is good choice for people to afford. compared to other ways.

Additionally, as figure 3 shows. the UK gross weekly earning increases from £ 431.20 to £ 488.50 to £ 517.50.

~~Large~~ Large disposable incomes drives people to buy more.



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Examiner Comments

The candidate has clearly identified the increase in the number of registered cars. Explicit reference is made to the increase in the cost of running a car compared to costs of using buses and rail fares with explicit reference to the data. The comparative comment then achieves the final mark as they compare the affordability of the two methods. No credit for the work on Figure 3.

Question 10 (b)

This question explored whether rail travel was a normal or inferior good. Defining normal and inferior goods was the simplest marks awarded. The mark scheme required candidates to calculate the YED for rail which was +0.88, showing it to be a normal good. Many approached the question without completing this calculation. They still gained data marks for calculating the change in demand. Better candidates also explicitly identified that the relationship was positive and therefore made it a normal good.

(b) With reference to Figure 3, explain whether rail travel is a normal good or an inferior good.

(6)

Income elasticity of demand measures the responsiveness of demand to changes in income.

A normal good has a positive value ~~and~~ ^{so} increase as when income increases demand for normal goods increase.

An inferior good has a negative value so when income ~~increases~~ increases demand decreases. As shown in figure 3

~~the~~ as income increased from £431.20 in 2005 to £488.50 in 2009 and ~~from~~ to £517.50 in 2013, rail travel increase from 141 to 143 to 166 respectively.

This ~~shows~~ shows as income increases demand increase this can also be shown in calculation.

$$\frac{\frac{\Delta Qd}{\text{original } Qd} \times 100}{\frac{\Delta Y}{\text{original } Y} \times 100}$$

$$\Rightarrow \frac{\frac{25}{141} \times 100}{\frac{86.3}{431.20} \times 100}$$

17.7

$$= 17.7 / 20 = 0.885$$

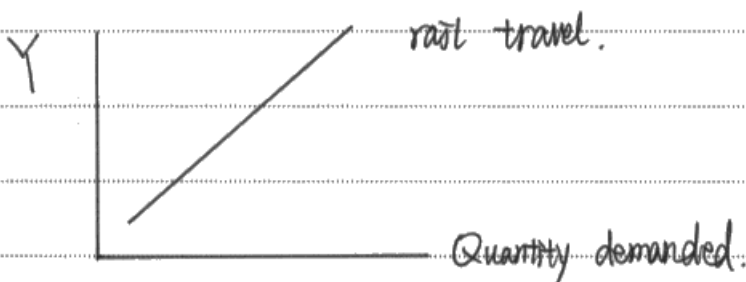
Positive value so normal good
basic good because from 0-1.



Marks awarded here for the definitions of both normal and inferior goods. They explicitly refer to the change in income for the next mark before calculating the percentage change in income for the next mark. They do the same for demand for surface rail for 2 marks. They then calculate the income elasticity of demand. They then explain that the positive value of the income elasticity of demand shows it is a normal good to be able to achieve full marks.

1. A normal good has a positive YED. When income rises, the demand for it will rise. An inferior good has a negative YED. When income rises, demand for it falls.

2. Rail travel is a normal good. National incomes rose from £431.70 in 2005 to £517.50 and rail travel increased from 141 to 166.



A rise in UK weekly earnings led to a rise in demand for rail travel so it is a normal good.



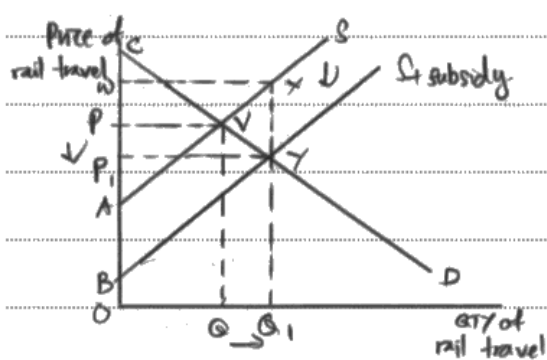
Marks awarded for defining normal and inferior goods. They refer to specific data on the change in income and demand. They use a figure to show the relationship between the two. Summarising the relationship between the two achieves the final mark.

Question 10 (c)

This question looked at the impact of increased rail passenger numbers. There was very effective use of the data once more looking at the impact on accidents, pollution and pleasingly candidates were able to link this to economic concepts. Many defined external costs and drew a relevant diagram. There were some strong arguments looking at the impacts on the wider car and rail markets which were well explained. A significant number looked at the cost of subsidising the rail industry in evaluation and there were some interesting counter arguments looking at the impact of train accidents and how rail transport can still pollute.

According to Extract 1, 'road accidents kill 1.2 million people globally every year.' This indicates that travelling on road leads to external cost to society. Travelling on road will also contribute to air pollution, noise pollution and congestion. This means that there will be external cost to the society. External cost is cost that is borne by third parties that are not involved in economic transactions.

Extract 1, lines 4-5 states that government subsidise rail travel to reduce road-traffic externalities. Subsidies will decrease cost of production of railways and rails.



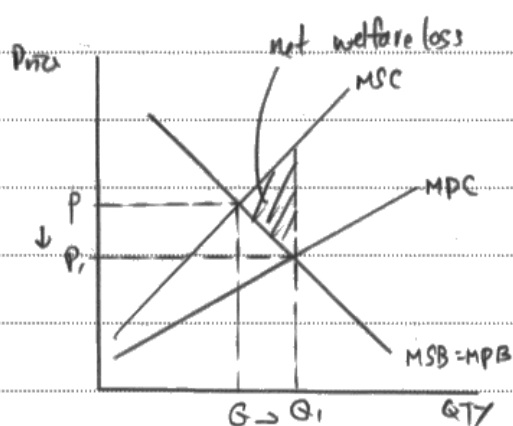
As subsidy of XY per unit is imposed supply curve shifts from S to $S + \text{subsidy}$. Price decrease from P to P_1 and quantity demanded and supplied rises from Q to Q_1 .
~~Producer~~ ^{Consumer} surplus increases from PCV to P_1CY . Producer surplus increase from APV to BP_1Y . Producer revenue

increases from $OPVQ$ to OP_1YQ_1 .

As subsidy is imposed, cost of production decreases and quantity supplied of rail travel increases. After imposition of subsidy, price of rail travel will also decrease and consumption of rail travel increases. The increased in quantity demanded for rail travel will result in an increase in employment as firms will employ more workers to increase output.

As passengers switch from road to rail travel, number of car accidents will fall as number of cars on road decreases. Air pollution will fall to. This is because there is now less cars on the road and thus less carbon emission of cars. This will lead to a healthier population as people will not have to spend extra on medical bills. Congestion will be ~~less~~ lessened too as numbers of cars on road decreases. Noise pollution will increase stress level of people. Reduction in numbers of cars will reduce noise pollution.

Therefore, external cost is internalised.



When passengers switch from road to rail travel, external cost will be reduced, MPC will move up until $MSC = MPC$. Thus, social optimum output where $MSB = MSC$ is achieved.

However, this will lead to unemployment. Workers that produce cars will be unemployed as demand for car decreases. Firms will cut back operations by retrenching. Thus, unemployment increases.

Also, the impact of switching to rail travel depends on the ~~mag~~ PED of road travel. If PED is inelastic, people will still travel by road travel as they find it a necessity for them. Thus, impact of reducing external cost will be minimal.



ResultsPlus Examiner Comments

The first paragraph needs connecting to the question in terms of increased rail numbers helping help reduce these externalities. Looks at relevant issues related to pollution and congestion and how these will be reduced. Accurate diagram is drawn. Achieves level 2 for knowledge, application and analysis. Evaluation is offered and achieves level 2.

Question 10 (d)

This question looked at why some drivers were uninsured. The idea was that candidates would identify that this is a market failure and specifically asymmetric or imperfect information. Many focused on the costs being too high, the value of the car being too low, being uninsurable – for example due to being convicted as a drink driver.

(d) Discuss why '8.5% of New Zealand's car drivers are uninsured' (Extract 2, line 8).

Use the concept of market failure in your answer.

(10)

market failure is when the market fails to allocate resources efficiently.

One of the reasons why a market fails is imperfect or asymmetric information.

This means that the information is incomplete or lacking or that the producer knows more than the consumer.

It's probably that drivers don't realise the massive costs (41,000 repair bill) they will be left with if they don't have insurance and perhaps think that "their car isn't worth insuring" but don't realise they'll have to pay repair bills for the victim if the crash was their fault.

Furthermore, they may not realise how likely/common car crashes are and may think it will never happen to them. Yet there's been a 25% increase in car crashes from uninsured drivers costing millions of dollars. Therefore they think they don't need insurance as the cost is too high for them and they probably won't crash.



For knowledge, application and analysis the candidate achieves credit for the definition of market failure and asymmetric information. They also look at how drivers don't realise the massive costs (\$41000 repair bill). The candidate also considers how the drivers may not realise how common car crashes are and think it will never happen to them – 4/6.

Evaluation is offered looking at people thinking their car is not worth insuring, which is level 1. Also that people look for insurance but no one is willing to insure them, for example if they have had a drink driving incident, which is level 2.

Some may not be able to afford the high costs of insurance especially new young drivers who are a risk have high insurance premiums. Full marks for evaluation 4/4. Total 8/10

Question 10 (e)

This question asked for a diagram so it is important that candidates offer a relevant diagram. Many that did draw the impact of the introduction of a tax. This was talking about a reduction in an indirect tax. Most that did this showed a supply curve shifting right which is correct. The best responses showed the supply curve before the indirect tax, with the higher tax rate and with the new lower indirect tax rate.

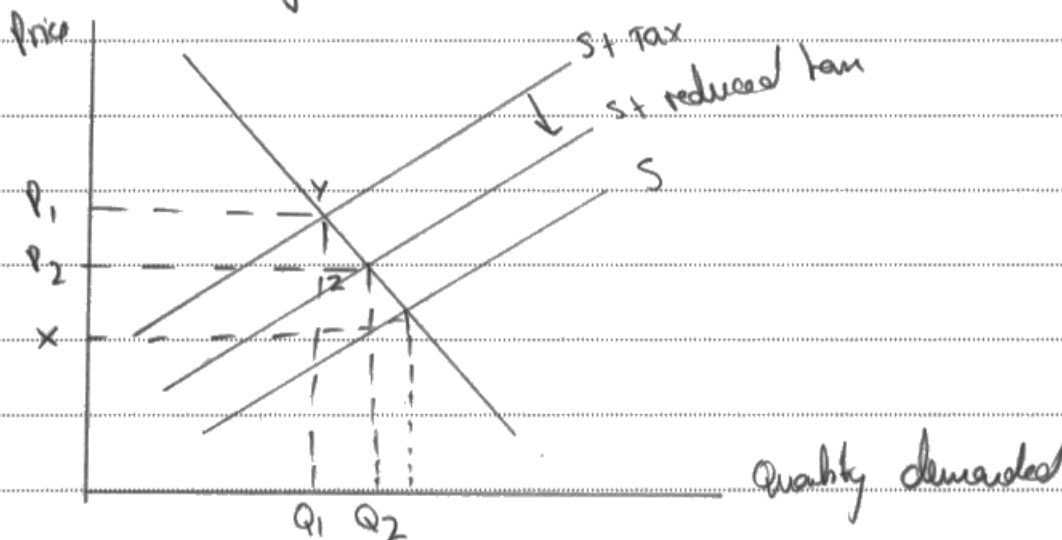
Most defined indirect tax accurately and many referred to the 58.7% indirect tax in the UK. Many looked at the impact of the tax and it was pleasing that so many did look at the impact on businesses and governments as per the question. It is important on a micro paper that candidates focus on the market in question. Some looked in some detail at the macroeconomic impacts without linking them to the relevant market.

Typical evaluation linked to magnitude, time lags and government failure was used but increasingly students are not making the link between generic evaluation points and using the data to support this. This is moving the evaluation from generic Level 1 to at least Level 2 and at best Level 3.

- (e) With reference to Extract 3, discuss the likely impact of a reduction in indirect diesel fuel taxes on UK businesses and the Government. Illustrate your answer with an appropriate diagram.

(14)

An indirect tax is a tax levied per unit of output of good sold and is a specific tax.



A reduction of indirect tax cuts costs of production which shifts the supply curve towards the right. This has the effect of decreasing price of fuel on to P_2 and increasing the demand to Q_2 .

more, especially the firms that use a lot of commercial vehicles. This will also reduce the prices to transport products and therefore the prices consumers have to pay in stores.

A reduction in tax may also attract foreign businesses to come to the UK which will increase tax revenue for the government.

Since the tax is at 58.7%, a reduction in tax will definitely be noticed.

However, it does depend on the magnitude of the reduction in tax. Since the tax is already so high, businesses are probably producing at their most efficient level. Therefore, a small reduction in indirect tax will not affect businesses that much as they must've found it better alternatives to diesel by now. A small reduction of tax will only result in less revenue for the government. However, if the government reduced it to USA levels, then there would be significant impact.

Another evaluative point is that it depends on the inelasticity of demand for the products of UK businesses. If it is very inelastic, then UK businesses would already have been passing the burden of tax to their consumers without really feeling the burden. Consequently, a reduction of tax would

only make UK businesses more profitable. It would
might not even result in lower prices for
consumers as businesses may just exploit them.

A final evaluative point is that in the
short run, the government may experience
less revenue and UK businesses will flourish
as more people buy their cheaper products as
supply would have increased due to a reduction in
costs of production. However, in the long run, the
increased use of diesel and its increased emission
of greenhouse gases substantially increases the
negative externality and would be felt by
everyone as global warming risks increase and
more people are affected by pollution.



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Examiner Comments

Accurate definition of indirect tax is offered. The diagram clearly shows the effect of the tax being reduced, to be able to access level 3. The candidate considers the impact on the government in terms of tax revenues. Reduced pollution is also considered. The quality of this knowledge, application and analysis achieves in the top level. The evaluation is also strong, looking in detail at magnitude, price elasticity of demand and impacts on the short and long run. Again sufficient to access the top level.

Paper Summary

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

Supported Multiple Choice section:

- Make sure you plan ahead and do not run out of time
- Draw or annotate relevant diagrams to support your answers
- Ensure that you apply appropriate economic theory and analysis in your responses
- Make sure you explicitly state the option key being rejected
- Use a combination of techniques for securing the 3 explanation marks.

Data response questions:

- Make sure you provide evaluative comments in your responses

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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