

Examiners' Report

June 2014

IAL Economics WEC01 01

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Introduction

This is the second series that the IAL Economics 'Markets in Action' has been sat and there was an increase in numbers sitting the paper compared to January. There was also an improvement in the standard of work produced. The performance of candidates on the supported multiple choice was greatly improved compared to the January season.

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 at least a couple of marks for either explaining or identifying the correct key with some explanation. Question 7 on consumer behaviour, and question 8 on maximum wage, tended to cause some problems. On question 7, they often knew the answer but found it very challenging to express why habitual behaviour will lead people to remain at the same bank when others offer better rates of interest. On question 8, there was much confusion with minimum wages and unemployment as opposed to the shortage the diagram shows. The data response section for question 10 was slightly more popular than question 9. Candidate performance on both questions was broadly similar. There was an improvement in the quality of questions worth 14 marks. They performed better in their ability to demonstrate knowledge, application and analysis. 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.

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 but still candidates need to be careful to label all axis and curves and explicitly refer to any welfare losses rather than assuming the examiner knows what the shaded area is. There were a significant number of superior responses which scored very high marks, particularly in the supported choice section of the paper and in the 6 and 4 mark questions on the data response.

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. It is important that candidates practise the unit 1 sample assessment material question paper and the January and June 2014 papers under timed conditions to strengthen exam skills.

Section A - Supported multiple choice

Most candidates found this method of testing accessible. Those candidates scoring at the top end of the mark range were able to use relevant diagrams to support their answers and the written responses were able to define and explain the correct key effectively.

Almost all candidates, at every grade, accessed marks by defining the main concept(s) in the question for 1 or 2 marks. Those that went on to apply appropriate economic theory and analysis were awarded up to 2 marks.

It is possible to achieve the full 3 explanation marks even when an incorrect option is selected. Extra care in checking their answers would ensure they maximise the marks achieved. Some candidates gained marks by using the rejection technique. Up to 3 marks are available for successfully eliminating 3 incorrect options (provided that three separate reasons are offered). To achieve rejection marks it requires candidates to explicitly state the option key being rejected and then to offer an appropriate explanation. Fewer candidates failed to identify the incorrect option key. A significant number were using the rejection mark to achieve their last mark on these questions. The mark scheme offers guidance on how to reject incorrect options.

Note: It is perfectly acceptable to use a combination of techniques for securing the 3 explanation marks. For example, explaining the correct answer (1 mark), diagrammatic analysis (1 mark) and eliminating one or more incorrect answers (1 mark).

It is still surprising on questions where a diagram is provided that many students do not annotate it to help explain their answers. Often they take the time to draw a diagram from scratch which replicates what is provided. I would encourage candidates to annotate the diagrams provided to save time.

Section B - Data response questions

The data response questions have a substantial weighting for evaluation marks - 16 out of 48 marks. Consequently, it is vital that candidates make evaluative comments when required by the question. The 14 mark question has 6 marks for evaluation (2+2+2 or 3+3) and a 10 mark question has 4 evaluation marks (2+2). This exam session saw more attempts to offer evaluation points. Question 10 (Driving growth in the car market) was a more popular choice, with slightly more candidates selecting this compared to Q9 (The price of uranium).

Question 1

This style of question seemed familiar to candidates and the responses were strong. Most candidates selected the correct key and were able to define both positive and normative statements. Candidates typically then explained why statement 1 was normative and statement 2 positive.

The definitions of normative statements were most likely to be incorrect when students referred to them as being based on opinions whereas we are looking for them being seen as value judgements.

In explaining why statement 1 was normative, some just said it is normative because of the word 'should' but there needed to be an explanation as to how that makes it normative. For example, 'should' is based on a person's value judgement, thus making it normative. Students explained why statement 2 was positive in a much better way referring to the ability to check the variation in minimum wages. It was very rare for candidates to use the rejection technique.

This response accessed full marks despite referring to opinions in defining normative statements and not explaining why 'should' makes statement 1 normative. By attempting to define normative, positive statements and explaining why each was normative and positive, they accessed all marks available.

1 Statement 1

A global minimum wage should be introduced to help the poorest workers in the world.

Statement 2

There is a variation in monthly minimum wages in Europe ranging from €159 in Romania to €1 874 in Luxembourg.

Which **one** of the following best describes the two statements above?

(1)

- A Both statements are normative
- B Statement 1 is normative and statement 2 is positive
- C Both statements are positive
- D Statement 1 is positive and statement 2 is normative

Answer

B

Explanation

(3)

A positive statement is one which can be tested and presents a facts which may be true or false. Statement 2 is positive because ~~we~~ we can look at minimum wages in those countries and check if the statement is true.

A normative statement is a value judgement which is someone's opinion. Statement 1 is normative because it has the word should.



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Examiner Comments

The candidate was awarded 1 mark for the correct answer - B.

1 mark was given for the definition of positive statements as one that can be tested/ being based on facts.

1 mark was awarded for explaining that we can look to check minimum wages to see if it is true.

1 mark for definition of normative as based on value judgement. Reference to opinion alone would not have been awarded.

Identifying 'should' in statement 1, but not linking to why this makes it normative, was not credited. You would need to see the link to value judgements to award a mark.



ResultsPlus

Examiner Tip

Be careful when defining normative and focus on it being based on a value judgement. Do not refer to opinions. This candidate was credited here because they referred to it being both based on value judgements and opinions.

This response achieved full marks in a brief and efficient manner.

1 Statement 1

A global minimum wage should be introduced to help the poorest workers in the world.

Statement 2

There is a variation in monthly minimum wages in Europe ranging from €159 in Romania to €1 874 in Luxembourg.

Which **one** of the following best describes the two statements above?

(1)

- A Both statements are normative
- B Statement 1 is normative and statement 2 is positive
- C Both statements are positive
- D Statement 1 is positive and statement 2 is normative

Answer

Explanation

(3)

Normative statement is a statement which carry value judgement.

Positive statement is a statement based on fact which can be testified whether it is true or false.

Statement 1 is normative statement as the word used 'should be' is a value judgement.



ResultsPlus
Examiner Comments

They achieved a mark for the definition of normative, linking it to value judgements. One mark for defining positive statements linking to it being a fact that can be tested to see whether it is true. One mark was awarded for explaining that the phrase 'should be' shows it is a value judgement.



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Examiner Tip

Remember do not just say it is a normative statement because it has the word 'should'. Try to explain, as this candidate did, that it shows it is a value judgement.

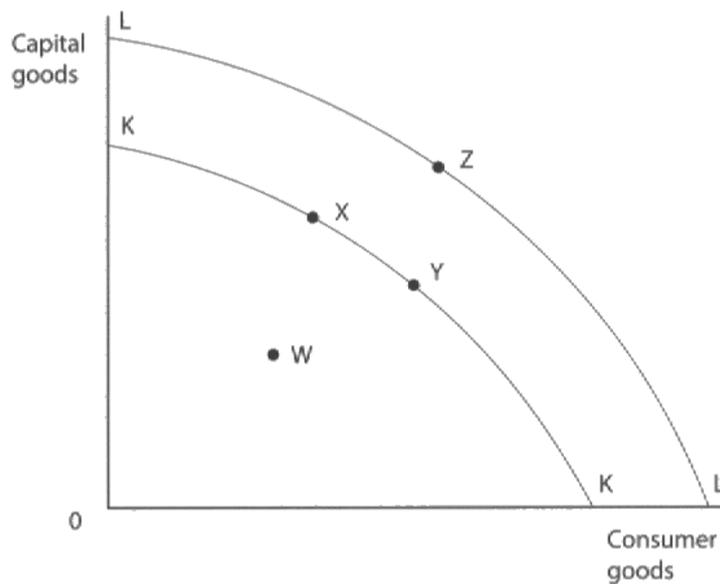
Question 2

This was an accessible question where most were able to identify C as correct which showed the economy moving from Y to Z. A very limited number annotated the PPF diagram to show the shift. The PPF was usually defined accurately as it was in the last series. Many accurately define economic growth, although it tended to be your top performing candidates that were able to get the final mark. This was often by referring to how the PPF moves out due to technological improvement, or explaining the outward shift of the PPF from KK to LL.

Rejection marks were common and candidates most commonly rejected Y to W, linking to how this moves from fully utilising resources to leaving some resources unemployed.

This candidate has scored more than the marks allocated with 1 mark awarded for the correct answer and 4 for the explanation, therefore achieving full marks.

- 2 The production possibility frontier KK represents an economy in year 1. The economy is using all of its available resources.



In year 2, the economy experiences economic growth. This may be illustrated by a movement from

(1)

- A Y to W
- B X to Y
- C Y to Z
- D Z to Y

Answer

C

PPF shows the maximum combination of two goods that can be produced when all the resources are fully and efficiently employed. Economic growth means an increase in the productive capacity of the economy. ~~At~~ ^{At} X and Y the economy is operating at its full capacity. A movement from X to Z means that there was economic growth which could have taken place due to improvements in technology or increase in the productivity of the workforce.



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Examiner Comments

1 mark was awarded for the correct answer C. 1 mark for the definition of PPF referring to the maximum/ all resources fully employed.

1 mark for definition of economic growth - increases productive capacity.

1 mark for X and Y at full capacity and 1 mark for cause of growth as improvements in technology.



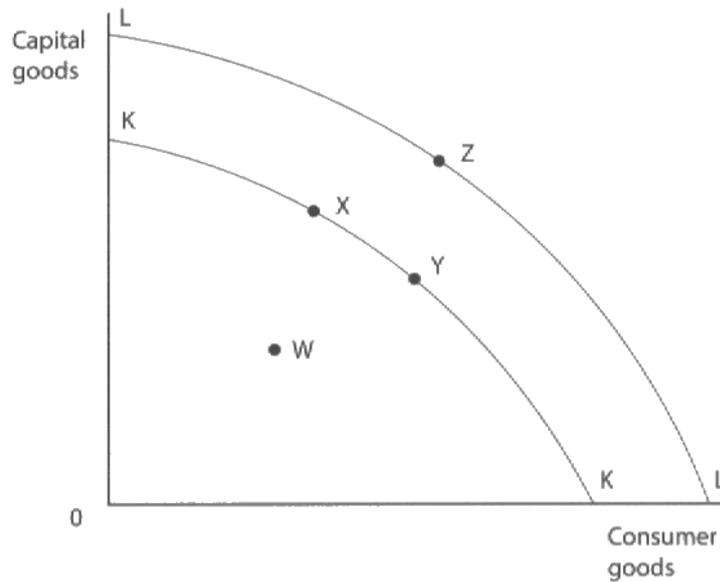
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Examiner Tip

Annotating this diagram with arrows, showing the movement from PPF KK to LL, would help candidates access 1 mark.

This candidate was awarded full marks.

- 2 The production possibility frontier KL represents an economy in year 1. The economy is using all of its available resources.



In year 2, the economy experiences economic growth. This may be illustrated by a movement from

(1)

- A Y to W
- B X to Y
- C Y to Z
- D Z to Y

Answer

C

Production possibility frontier KL shows the maximum possible combination of any 2 goods or services, in this case, capital goods and consumer goods, in the economy resources are fully utilised. Economic growth is the increase in total value of all goods and services in the economy. As there is an economic growth, the production possibility frontier will shift outwards for both capital goods and consumer goods, thus from ~~Y~~ Y to Z.



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Examiner Comments

1 mark was awarded for the correct answer. 1 mark for accurately defining PPF. 1 mark for defining economic growth. A final mark was awarded for explaining that the PPF curve shifts outwards with more capital and consumer goods.



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Examiner Tip

If rejecting D remember that this does not, in this case, show economic decline. In year 1, Z is unobtainable as you are told the economy is operating on KK in year 1 using all available resources.

Question 3

This is a familiar question but many were confused by C. Demand rising will cause price to rise not fall hence C is not correct. Most candidates could correctly answer D and then define price mechanism. The link to the profit incentive was less common and tended to be referred to by those performing better overall.

This response was awarded full marks.

3 One function of the price mechanism is to

(1)

- A encourage government intervention to allocate resources
- B avoid price fluctuations
- C ration scarce resources by allowing the price to fall when demand for a product rises
- D create an incentive to increase the quantity supplied of a product when price rises

Answer

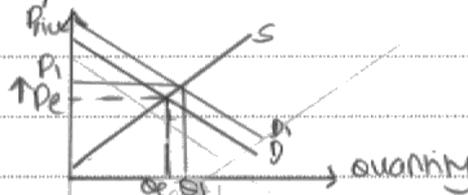
D

Explanation

(3)

The price mechanism involves the forces of demand and supply in the market which determine the price of a good or a service. The one function of the price mechanism is to provide an incentive to producers so when the price of a good rises, the price mechanism provides a profit incentive to producers and thus signals them to reallocate their resources to produce profitable goods.

Therefore, the correct choice is D.



As in the diagram above, if the price of the good increases from P_e to P_1 due to an increase in demand from D to D_1 , quantity supplied of that good increases from Q_e to Q_1 .

(Total for Question 3 = 4 marks)



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Examiner Comments

1 mark awarded for correct response given - D. 1 mark for definition of price mechanism - supply and demand determine price. 1 mark for when price rises, profit incentive increases and 1 mark for reallocate resources. 2 marks for diagram showing rising price and extension of supply.



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Examiner Tip

The sentence 'Therefore the correct choice is D', adds no value to the response and you only need to use the key when rejecting responses.

This is another efficient response covering exactly what is needed to secure full marks.

3 One function of the price mechanism is to

(1)

- A encourage government intervention to allocate resources
- B avoid price fluctuations
- C ration scarce resources by allowing the price to fall when demand for a product rises
- D create an incentive to increase the quantity supplied of a product when price rises

Answer

D

Explanation

(3)

The price mechanism is the system that allocates resources efficiently between the demand of consumers and supply of producers. If demand for an object increases, its price will rise. This increase in price attracts ~~supply~~ as there is now a greater profit motive for this product. So an increase in ~~the~~ price causes an increase in supply.



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Examiner Comments

1 mark for offering the correct response.

1 mark for understanding of concept of price mechanism - supply of producers and demand of consumers.

1 mark for demand and price rising. Higher prices leading to the profit motive causing an increase in supply, is the final mark.



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Examiner Tip

The candidate could have linked rejecting C to the fact that as demand for an item increases, the price will rise.

Question 4

This question tested students understanding of the benefits of specialisation. Most found the question accessible and scored well. A number misread the stem and then referred to output or boredom rising in their justification but the stem refers to a 'reduction of', so this is not the correct answer. Pleasingly there were strong definitions of specialisation. The link to how it leads to lower costs was variables. Some referred to less wastage as people do not change between jobs, others looked at lower training costs, whilst others focused on improved productivity. All were perfectly plausible and rewarded, Students commonly rejected A, linking it to how the monotony would increase boredom. The very best responses applied their answer specifically to a clothing company as referred to in the question.

This response is able to both explain the correct answer and reject one of the alternative responses.

4 Each worker at China Clothing Company used to perform all of the tasks needed to make a garment from start to finish. The owners decide to apply division of labour to its production process. This is most likely to cause a reduction in

(1)

- A boredom within the workforce
- B costs of production per garment
- C output per worker
- D levels of production

Answer

B

Explanation

(3)

Division of labour is when workers get specialised in one stage of production. Also called specialisation.
- Costs of production per garment decrease because workers get specialised and get more efficient. Products take less time to manufacture.
- It is not 'A' because boredom within the workforce will increase due they perform the same tasks many times a day.



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Examiner Comments

1 mark for correct answer - B.

1 mark for definition of division of labour- workers get specialised in one stage of production.

1 mark for workers become more efficient. They are awarded 1 mark for rejection of A, as boredom is likely to increase as they perform the same task repeatedly.



ResultsPlus
Examiner Tip

When rejecting responses, make it clear you are rejecting them by stating the letter and linking it to being incorrect or wrong.

This response accesses full marks for explaining why the answer is correct, and rejecting the answer linked to boredom.

4 Each worker at China Clothing Company used to perform all of the tasks needed to make a garment from start to finish. The owners decide to apply division of labour to its production process. This is most likely to cause a reduction in

(1)

- A boredom within the workforce
- B costs of production per garment
- C output per worker
- D levels of production

Answer

B

Explanation

(3)

Division of labour is a system of production introduced by Adam Smith, where each worker specialises on completing one particular task, which increases productivity.

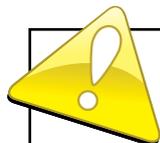
Not A, because repetitive tasks are boring.

Not C, because division of labour increases productivity.



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1 mark for the correct answer - B. 1 mark for definition of division of labour - where staff specialise in one task. 1 mark for explaining that this increases productivity/for rejection of C as it increases productivity. 1 mark for rejection of A due to it being repetitive which makes it boring.



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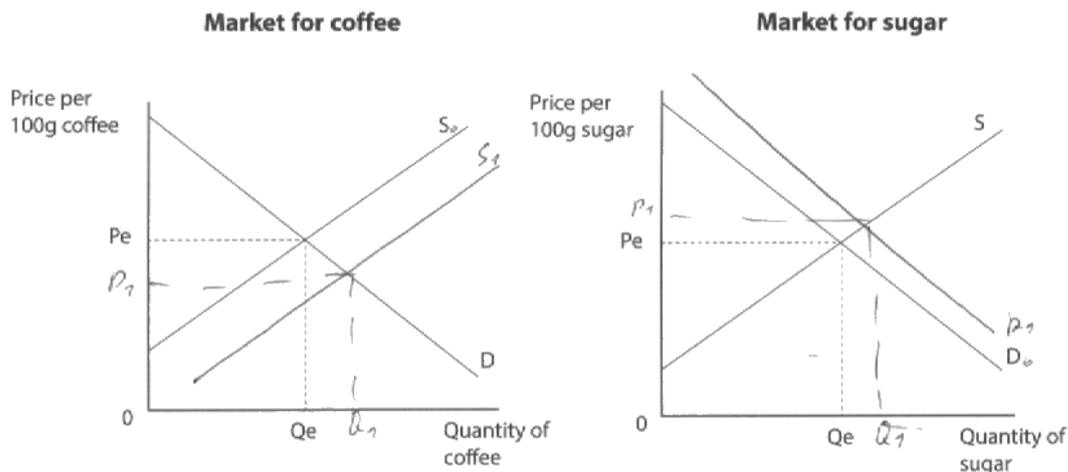
Try to relate more specifically to the business referred to, e.g. a clothing company.

Question 5

The question told them that there was a bumper harvest of coffee in Brazil and the majority understood that this means supply rose and price would rise. Similarly, they were able to connect coffee and sugar as complementary goods. In justifying their answer, most wrote out what happened to supply, demand and price when they could have received 2 marks for adding a supply line to the coffee market and a demand curve to the sugar market, showing prices falling and rising respectively.

A response that was brief but the explanation largely comes in the use of the diagram. All they then needed to do was connect sugar and coffee as complements in their written explanation.

5 The diagrams show the markets for coffee and sugar.



In August 2013 it was reported that Brazil is forecasting a larger coffee bean harvest than in previous years. Other things being equal, this is most likely to cause

(1)

- | Price of coffee | Price of sugar |
|-----------------|----------------|
| A Rise | Rise |
| B Fall | Fall |
| C Fall | Rise |
| D No change | Fall |

Answer C

Coffee and sugar are complements

$XED \neq 0$ so when price of coffee decreases,

quantity demanded for sugar increases

$$XED = \frac{\% \text{ change in } Q \text{ of sugar}}{\% \text{ change in price of coffee}}$$



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Examiner Comments

1 mark for the correct answer C. 1 mark for the correct annotation of coffee market in terms of increased supply and falling price and 1 mark for correct annotation of sugar market to show rising demand and prices. 1 mark for Complements $XED < 0$.



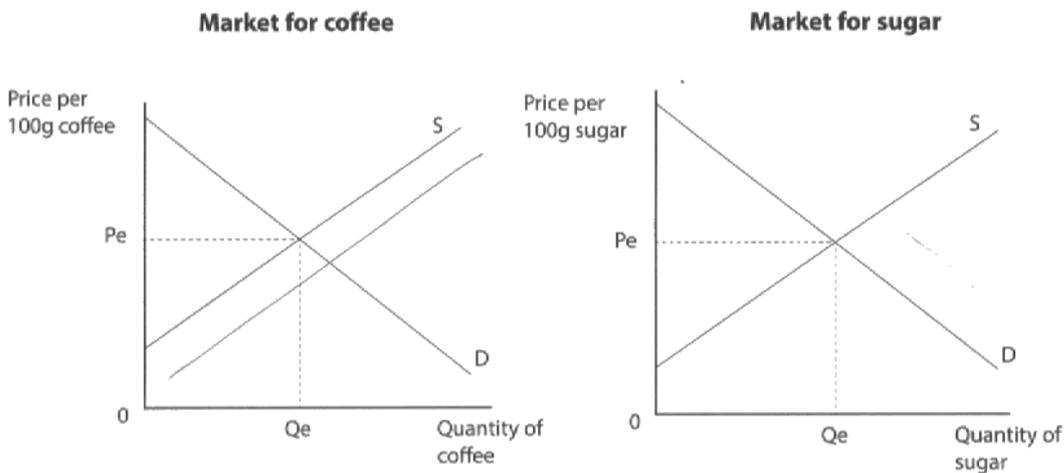
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Examiner Tip

Annotating the diagrams to shifts in supply, demand and price enable them to access 2 marks in a simple way.

The candidate receives no credit for drawing unlabelled curves on the diagrams. There is, however, an explanation of the impacts on the coffee and sugar markets and a connection is made between the two in terms of them being complementary goods.

5 The diagrams show the markets for coffee and sugar.



In August 2013 it was reported that Brazil is forecasting a larger coffee bean harvest than in previous years. Other things being equal, this is most likely to cause

(1)

- | Price of coffee | Price of sugar |
|-----------------|----------------|
| A Rise | Rise |
| B Fall | Fall |
| C Fall | Rise |
| D No change | Fall |

Answer C

Demand is the willingness and ability to pay a price at a given time. Option C, because when there is a large harvest, this would cause supply to increase, and of coffee, since coffee and sugar are complementary goods, they are consumed together, so this would cause demand to increase of sugar, thus resulting in an increase of price. Option A, is incorrect because when supply is a large harvest supply will increase, resulting in a price reduction.



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Examiner Comments

1 mark for the correct answer. The coffee market diagram is given no credit as new supply curve and equilibrium are not labelled. Coffee supply increased linked to price is at the end so 1 mark. 1 mark for appreciation that coffee and sugar are bought together. 1 mark for demand increase and price rise for sugar



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Examiner Tip

Be careful to label curves when drawing diagrams.

Question 6

Nearly every student was able to define or write down the formula for the price elasticity of demand. A significant number incorrectly identified them all as inelastic when in fact Europe has a PED of -1.2 making it elastic. This was frequently used as a rejection mark for A. Many could identify the correct answer and could say that when demand is price elastic, price rises reduce revenue but they do need to explain why. The best performing students explained that the rising price sees demand fall by a larger proportion than price rises, causing revenue to fall.

This was a more unusual response as they actually attempted to explain what happens to total revenue through the use of a diagram. PED was defined and A rejected, as most candidates did.

- 6 The table below shows estimates of the price elasticity of demand for short-haul air travel within selected regions.

Region	Price elasticity of demand for short-haul air travel
North America	-0.9
Europe	-1.2
Asia	-0.8
Sub-Saharan Africa	-0.5

(Source: adapted from www.iata.org/SiteCollectionDocuments/air_travel_demand_summary)

From the data it can be deduced that

(1)

- A the price elasticity of demand is inelastic in all regions
- B if airlines increase prices in Europe their total revenue will fall
- C airlines could reduce prices in Sub-Saharan Africa to increase their total revenue
- D short-haul air passengers in Asia are more responsive to price changes than those in North America

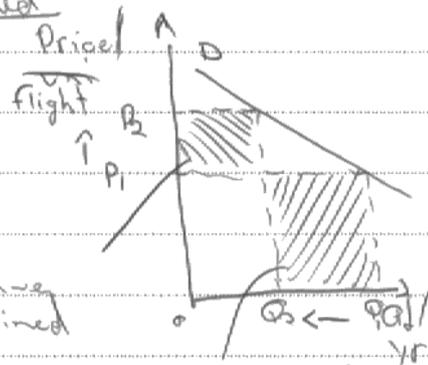
Answer

B

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

(3)

From my diagram, it is clear that the gain in revenue is less than the loss of revenue due to price decreases in quantity demanded. Thus, B is correct, as total revenue would fall.



(in Europe)

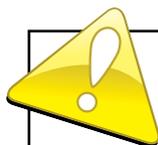
A must be false as a PED of $(-1)1.2$ is elastic (~~PED < 1 is elastic~~), all others are inelastic ($PED > 1$ is elastic)

(Total for Question 6 = 4 marks)



ResultsPlus Examiner Comments

1 mark for offering correct answer and 1 for correct formula. 2 marks for diagram which is fully labelled showing total revenue changes with a written explanation. 1 mark for rejection of A, as Europe is elastic.



ResultsPlus Examiner Tip

Remember that you don't need to offer both the definition and formula, as you will only get 1 mark for this.

Full marks were awarded for an accurate definition and explanation as to why revenue falls, offering a reason why. The latter was rarely offered but demonstrates a good level of understanding.

- 6 The table below shows estimates of the price elasticity of demand for short-haul air travel within selected regions.

Region	Price elasticity of demand for short-haul air travel
North America	-0.9 <i>inel</i>
Europe	-1.2 <i>el</i>
Asia	-0.8 <i>inel</i>
Sub-Saharan Africa	-0.5 <i>inel</i>

(Source: adapted from www.iata.org/SiteCollectionDocuments/air_travel_demand_summary)

From the data it can be deduced that

(1)

- A the price elasticity of demand is inelastic in all regions *x*
- B if airlines increase prices in Europe their total revenue will fall *✓*
- C airlines could reduce prices in Sub-Saharan Africa to increase their total revenue *✓*
- D short-haul air passengers in Asia are more responsive to price changes than those in North America

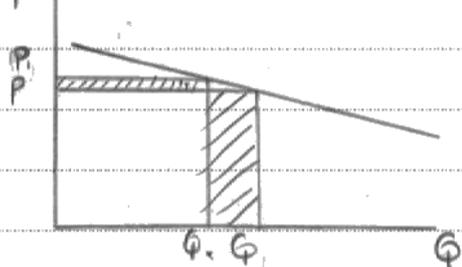
Answer

B

• $PED = \frac{\Delta QD}{\Delta P}$

• The PED value in ~~Europe~~ Europe is ~~above~~ below -1 (being -1.2) and it therefore elastic!

• *Europe - Short-haul Air*



A small increase in price from P to P_1 will lead to a greater decrease in quantity demanded hence *total revenue will drop!*

• This may be due to large substitutables such as railways!

(Total for Question 6 = 4 marks)



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Examiner Comments

1 for correct answer. 1 for formula of PED. 1 for elastic in Europe. Diagram not credited as demand curve not labelled. 1 mark for written explanation that there is a greater decrease in quantity demanded leading to revenue drop. 1 mark for reason - due to large number of substitutes such as railways.



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Examiner Tip

Remember to label diagrams - this clearly shows revenue will fall but it needs to be explicit as to what the curve is.

Question 7

The vast majority of candidates were able to identify the correct answer. They found it a challenge to explain why consumers remain with their current bank when other banks offer higher rates of interest. Most could explain that customers usually maximise their utility but beyond this many struggled. The best responses referred to how they get in to the habit of using the same bank so would prefer not to change. Many successfully rejected B explaining that if they were good at computation they would move to a bank offering a better return.

This response was unusual as it explains how habitual behaviour means they will stay with their current bank.

7 Consumers are unlikely to move their savings account to another bank, even when other banks offer higher rates of interest. This may be explained by consumers

(1)

- A minimising utility
- B being good at computation
- C experiencing external costs
- D exhibiting habitual behaviour

Answer

D

Explanation

(3)

Behavioural economics is the study of how consumers do not always maximise their utility. Changing banks in this case requires time and effort therefore adds an extra artificial cost to switching banks. There is creation of inertia as there is a comfort of ~~work~~ dealing with their original bank. Option A is incorrect as ~~the~~ rational consumers aim to maximise utility. Option B is incorrect as if they were good at computation they would switch banks.



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Examiner Comments

1 mark for the correct answer.

1 mark for linking to behavioural economics and how people do not always maximise utility.

1 mark for linking inertia and being comfortable with current bank which links to the idea of exhibiting habitual behaviour.

1 mark for A incorrect, as rational consumers aim to maximise utility not minimise it.



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Examiner Tip

This area of consumer behaviour is clearly a challenge and students need to take extra care in revising this section.

This gained full marks for focusing on explaining how habits are formed and explaining why the alternative is wrong.

7 Consumers are unlikely to move their savings account to another bank, even when other banks offer higher rates of interest. This may be explained by consumers

(1)

- A minimising utility ✗
- B being good at computation ✗
- C experiencing external costs ✗
- D exhibiting habitual behaviour

Answer

D

Explanation

(3)

Interest rates are the return to savings or the price of borrowing.

Utility refers to the want satisfying power of a commodity.

Option D is correct. The assumption of rationality may not apply when consumers frequently use their savings account which develops into a habit.

As a result, consumers may not come about the utility gained from other better alternative and stick to their habits.

Option B is wrong. (Total for Question 7 = 4 marks)

~~A~~ ~~rather~~ If they were good at computation, they would have realised the benefits of ~~the~~ investing in the other bank and switched to it.



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Examiner Comments

1 mark for correct answer, 1 mark for frequently use so becomes a habit and also the link to not caring about alternatives with higher interest. Final mark for good at computation so they would switch for better interest



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Examiner Tip

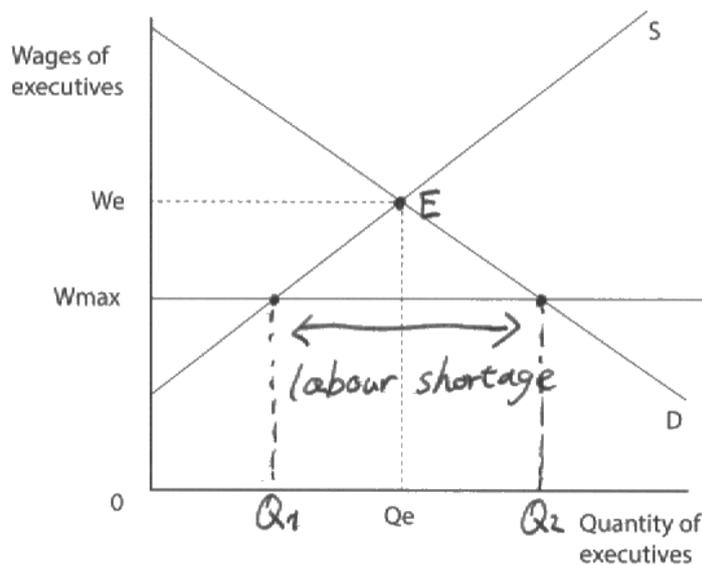
Only define the key concepts in the question. The area being tested was consumer behaviour and why people may not maximise utility to interest rates.

Question 8

This question caused real problems. Some saw this as a minimum wage and not a maximum wage. Others got all of their explanation wrong although they identified excess demand as causing unemployment rather than a shortage. This means they incorrectly selected B as their answer. One of the easiest ways to access marks here would be to annotate the diagram to show that supply contracts and demand extends with the resulting excess demand or shortage. Many understood that executives would seek employment abroad but fewer actually linked this to why in terms of higher wages likely to be offered abroad.

This candidate used the diagram to quickly access marks without having to write large amount. They are able to define key concepts and reject A effectively.

8 The diagram shows the labour market for executives in Swiss companies.



The public in Switzerland considered restricting the pay of executives who manage Swiss companies. The imposition of such a maximum wage at W_{max} would

(1)

- A result in the wages for executives of Swiss companies remaining unchanged
- B cause unemployment of executives in Switzerland
- C attract executives from other countries to Swiss companies
- D cause some executives of Swiss companies to move to other countries

Answer D

A maximum wage is the highest wage that workers are allowed to receive for their works.
Option A incorrect since ~~a~~ the maximum wage will only has no effect on the wage price when it is set above the equilibrium wage price (W_e).



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Examiner Comments

Correct answer so 1 mark. 1 mark for labelling labour shortage on diagram. 1 mark for definition of maximum wage. 1 mark for rejection of A, as will only have no effect if maximum wage above equilibrium wage.



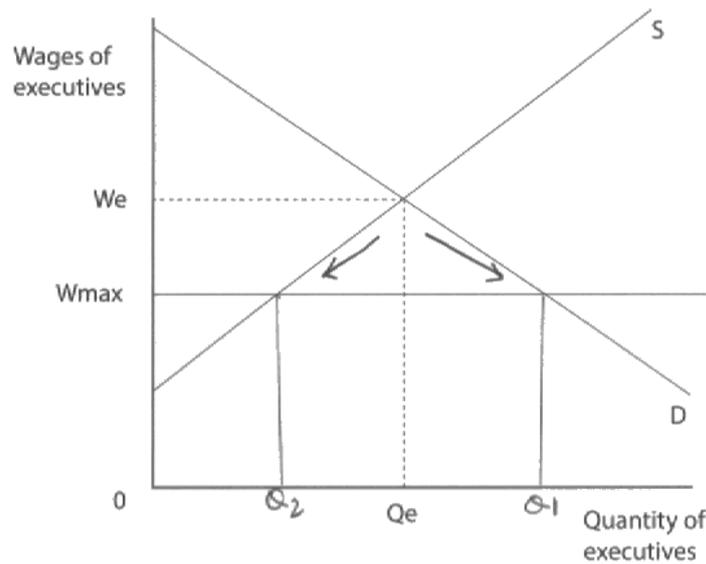
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Examiner Tip

When labelling the new quantities, show where quantity supplied adjusts to and where quantity demand adjusts to e.g. replace Q_1 with Q_S and Q_2 with Q_D .

This candidate uses the diagram and refers to it in the written section to justify D as the correct answer. Clear understanding of maximum wage.

8 The diagram shows the labour market for executives in Swiss companies.



The public in Switzerland considered restricting the pay of executives who manage Swiss companies. The imposition of such a maximum wage at W_{max} would

(1)

- A result in the wages for executives of Swiss companies remaining unchanged
- B cause unemployment of executives in Switzerland
- C attract executives from other countries to Swiss companies
- D cause some executives of Swiss companies to move to other countries

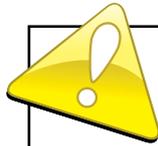
Answer D

A maximum wage rate is a legally imposed wage rate ^{set} above the market equilibrium wage rate to prevent top executives from taking in too much compensation. By imposing a ~~max wage~~ maximum wage rate, the supply of Swiss executives will ~~decrease~~ ^{contract} to Q_2 , as there is less incentive for these executives to work and they will move to other nations with higher wage rates. However, demand for Swiss executives will extend to Q_1 as now it is cheaper to hire them.



ResultsPlus
Examiner Comments

1 mark for correct answer. 1 mark for definition of maximum wage. 1 mark for supply contract to Q2 and 1 mark for demand extends to Q1.



ResultsPlus
Examiner Tip

Using arrows to show contraction and extension is helpful to the examiner.

Question 9 (a)

Most candidates explicitly used the data to exemplify the falling price. They then identified Japan and the closures, or reconsidering of uranium and nuclear as causing the fall in demand. Better candidates linked to German closures too. Diagrams were usually well done with demand falling and the original and new equilibria being drawn.

A response that has relevant explicit data use, the diagram is accurately drawn and reasons from the extract are offered.

(a) With reference to Figure 1 and Extract 1, explain why the price of uranium has fallen since March 2011. Use a supply and demand diagram in your answer.

(6)

From Figure 1, price of uranium fallen from \$65 to \$37 between March 2011 to July 2013.

From Extract 1, it says when earthquake happened in Japan, causes the Fukushima nuclear power plant be damaged, resulting in radioactive leaks. Then the two significant customers Japan and Germany of the uranium industry has stopped purchasing the nuclear fuel.

Uranium is the materials of nuclear fuel, so in the results, demand for uranium fallen from D to D_1 . So price decrease from P_e to P_1 .





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Examiner Comments

This offered explicit data reference about uranium's price moving from \$65 to \$37 (1 mark). They linked to Earthquake and leaks, which led to two major customers - German and Japan - stopping purchases (1+1). A diagram is drawn showing the original equilibrium (1), new equilibrium (1) and shifts in demand (1).



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Examiner Tip

When referring to data the precise numbers will gain more credit. It is not usually good enough to just say prices fell, as many did. It says prices have fallen in the question and so would not be rewarded.

Here there is explicit use of data on prices and causes of falling demand. The diagram is drawn with relevant shifts and equilibria.

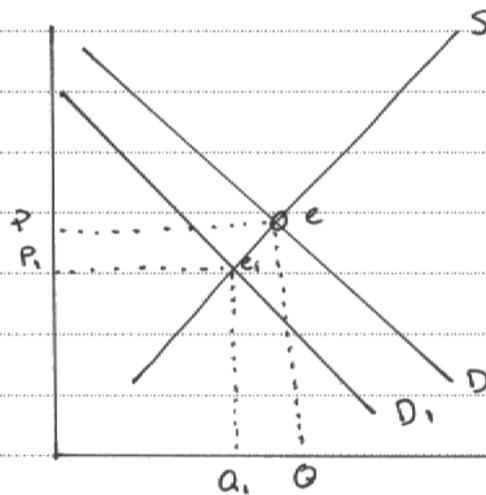
(a) With reference to Figure 1 and Extract 1, explain why the price of uranium has fallen since March 2011. Use a supply and demand diagram in your answer.

(6)

Since march 2011 Uranium has fallen from \$65 to \$37 in Jul 2013.

Reasons: Earthquake in Japan caused damage Fukushima power plant.

Causing many countries to reconsider use of nuclear energy and fuels.



$P \rightarrow P_1$
 $e \rightarrow e_1$
 Fall in price.



ResultsPlus

Examiner Comments

One mark for data reference- \$65 to \$37. One mark for earthquake and damage causing countries to reconsider nuclear (1 mark). Diagram showing original price and quantity (1), new price and quantity (1) and shift in demand (1). Although axes were not labelled they were rewarded for their diagram.



ResultsPlus

Examiner Tip

Do remember to label axis and curves - it did not affect the marks this time but often will.

Question 9 (b)

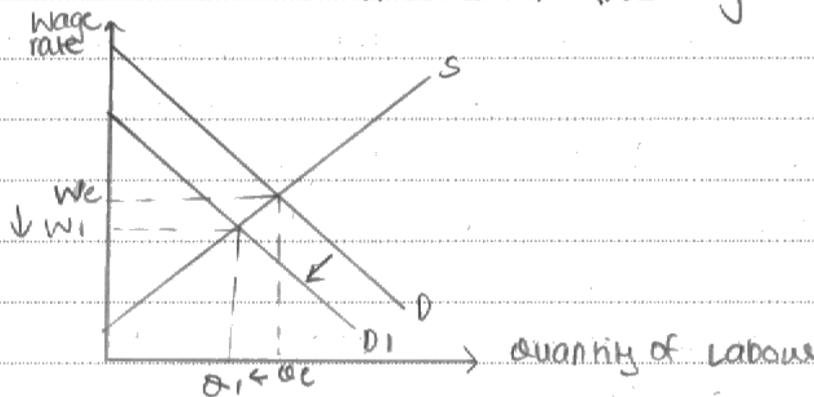
A common mistake with this question was for students to focus on the impact on the labour market of the Fukushima nuclear disaster. When reading the Economics it was generally sound. However, the question talks about changes in sources of energy. This needs them to focus on nuclear closures and the impact on the labour market. They need to look at demand falling due to derived demand. This then leads to wages falling and reduced employment/ unemployment rising. In contrast they could look at the growth of the solar energy market increasing labour demand, wages and employment. When doing diagrams for the labour market, it is important that the price of labour is referred to as wages, and it is best to annotate with W rather than P. Evaluation often focused on the ability of workers to transfer between jobs and looked at occupational immobility. They also linked to the need for staff to decommission nuclear plants as reducing the impact and the likelihood of needing capital intensive production with solar panels.

A solid response working in the top mark band for both sections but not quite demonstrating the level to access full marks. More on solar would have helped.

(b) With reference to Extract 2, discuss the impact of the changes in sources of energy supply on labour markets in Japan.

(10)

In March 2011, after the Fukushima Nuclear plant disaster, Japan closed down many of its nuclear plants. Therefore, the demand for nuclear energy has fallen and through derived demand theory, the demand for nuclear plant workers have decreased as well. So D has shifted in to the left to D_1 and the wage rate for nuclear plant workers have fallen, ^{from w_e to w_1} As a result, the quantity supplied of nuclear plant workers has decreased as well. This is illustrated in the diagram below;



Due to this decrease in demand, the number of labour employed has increased. People are now earning lower incomes and thus have lower living standards. Furthermore, ~~most of~~ some of the labour may have remained in the contaminated areas and are part of the 700,000. They may develop cancer and thus become more sick and less productive at work, leading

to them eventually becoming redundant.

Additionally of the 200 000 that has left the contaminated regions, these labour workers may become ~~occupationally~~ occupationally immobile, especially, when entering the solar power industry, which is the new source of energy supply for Japan. They are occupationally immobile due to their lack of variety of skills and qualifications.

Also some of the 700 000 may be geographically immobile as they can not afford to move from one place to another.

However, the extent of the geographical immobility depends on the region house price differentials in Japan. If they are reduced, the 700 000 can move to other places to find work. Furthermore, the quality of education and training in Japan may increase the amount of skills of the labour, allowing them to enter the solar power industry and become employed. This could lead to reduced unemployment. Adt

Additionally, the quality of health care in Japan may be very good and in the long run, further medical innovation can lead to more workers cured of cancer. Thus, the workforce will become more healthy and productive and will become employed, leading to better living standards.



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Examiner Comments

They talk about the closure of nuclear plants meaning demand for nuclear fell; derived demand, so decreased demand for labour, wage falls and quantity of workers decreased. Diagram illustrates a fall in demand, wages and quantity. Considers unemployment and lower incomes and contaminated areas meaning more sickness so workers less productive at work. Evaluation looks at occupational immobility where those entering the solar market may lack skills. There is also reference to geographical immobility. Evaluates by looking at regional house prices being important - if differentials are reduced people may move to other places to work. Evaluates by considering that training is important as well as healthcare where treatments will mean more productive workers.

KAA- 5 marks. Clear understanding of effect of decreased demand for nuclear power plants.

Only brief reference to solar so 5 and not 6. EV- 3 marks. Detailed evaluation, all related to occupational immobility and possible solutions.



ResultsPlus

Examiner Tip

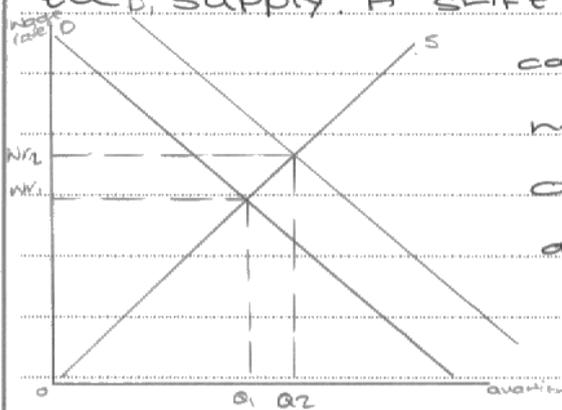
To improve here, a closer look at the solar energy market might help.

The candidate achieves full marks and has a well-developed response. It is well analysed with a clear diagram and application to the Japanese energy market. Evaluation is detailed and relevant with good development.

(b) With reference to Extract 2, discuss the impact of the changes in sources of energy supply on labour markets in Japan.

(10)

Japan will be expanding into solar energy and hydroelectricity as forms of renewable energy. This will require labour and therefore increase the demand for workers in the secondary sector. In addition, as Japan is investing in renewable energy, it is likely that these jobs are infinite in comparison to coal where when coal runs out, so does the supply. A shift out in demand is



caused by the need for labour in other production areas, the increase in wage rates will lead to an

extension in supply of workers in the solar energy industry.

However, this depends on the elasticity of the labour market as solar energy requires specific skill and may have an element of danger.

In this situation if the labour

Market is ~~is~~ supply is inelastic then
an increase in demand for labour
will have little effect on the supply.

Governments are putting a minimum
wage into place which will increase
the wage rates for workers and
hopefully stimulate the supply.

Due to the S2 nuclear plants
closing down there may be great
occupational immobility wherein the
workers who worked in the nuclear
plant don't have the skills needed
for solar energy production, leading
to structural unemployment.



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Examiner Comments

This response refers to expanding into solar energy/ hydroelectricity and how they will require labour, which increases the demand for workers in the secondary sector. The evaluation offered looks at the fact the jobs may be infinite, unlike coal which runs out. The diagram shows demand shifting out, wage rate increases and quantity increases. Evaluation of elasticity of supply, as solar requires specific skills/ danger so little effect on supply. Evaluation of occupational immobility where those employed in nuclear find it difficult to move to solar.

KAA- 6 marks. Clear understanding of the effect of increase in demand on labour market- in context with references to expanding solar and closures in nuclear.

EV- 4 marks. Best two evaluative comments supported by relevant reasoning.



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Examiner Tip

When evaluating on a 10 mark question you need to offer two developed evaluation points.

Question 9 (c)

Higher performing candidates defined externalities in detail, offered an accurate diagram, identified externalities from the extract and typically gave evaluation points relating to measuring issues and positive externalities. The standard of work on this question was generally high. With the diagram, students need to remember to label the welfare loss and explicitly label the market equilibrium and social optimum. Some candidates struggled with the diagram and could have benefited from further practice.

A strong response with well-developed knowledge, application and analysis clearly linked to the extract, demonstrating clear understanding. The evaluation is detailed and accesses the top mark band.

(c) With reference to Extract 2 and using the concept of externalities, examine the economic effects of nuclear energy production.

effects on

(14)

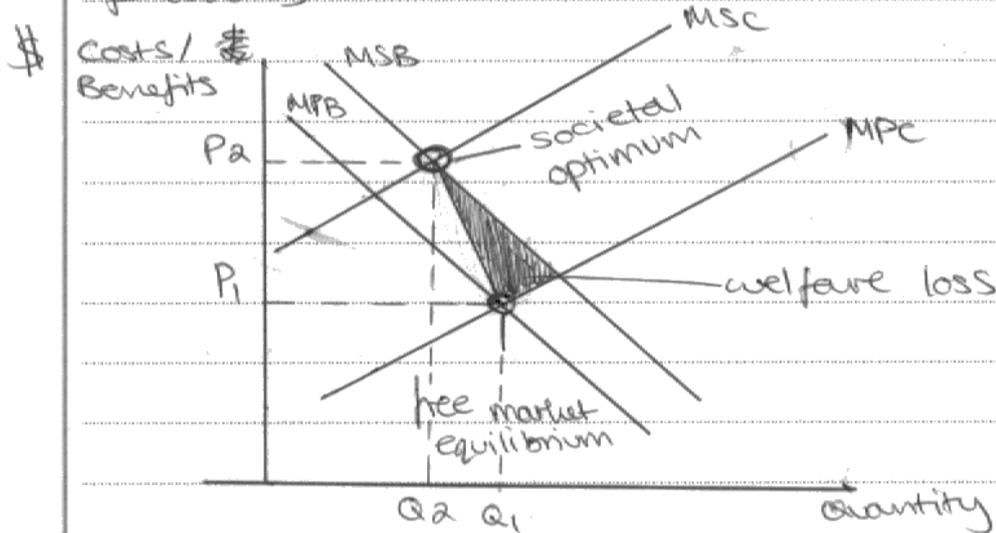
Externalities are the ~~the~~ third party effects both negative and positive ~~at~~ that come as a result of a transaction between producers and consumers.

There are negative externalities associated with nuclear energy such as the effects on the environment; contamination of soil and wildlife ~~at~~ is an example.

The market fails here as it does not consider these negative effects. Another issue is the human cost - with cancer and ~~radio~~ radiation exposure posing a threat and putting pressure on health services. The external costs

in this case are considered greater than the external benefits, such as jobs created in the industry or cheap energy (renewable energy is said to be more expensive). This means there is a welfare loss as society has deemed the market to have greater social costs than social benefits because the government and population have chosen to decrease their use of

this form of energy (closing 52 plants).



However, the consideration of externalities is difficult to measure. The societal optimum equilibrium (P_2, Q_2) may be inaccurate because it is difficult to quantify or ~~add~~ add a monetary value to the environment or the cost of soil contamination. In addition the magnitude of social costs in relation to social benefits could be miscalculated meaning a further welfare loss. Another factor is societal welfare does not consider the welfare of the individual such as those who have lost their jobs in the industry. In addition any government intervention could lead to government failure.



ResultsPlus

Examiner Comments

The candidate defines externalities by referring to third party effects as a result of a transaction. Examples are given from the extract including contamination of soil/wildlife, cancer caused by radiation exposure. The candidate links this to pressure on health services. Evaluates by referring to jobs created and cheap energy as a positive externalities. Refers the welfare loss as Social Costs are greater than Social Benefits. Diagram with curves shows free market and social optimum. Evaluation showing it is difficult to measure and to put a monetary value on soil contamination and the consideration of the magnitude of social costs with relation to benefits.

KAA - 8 marks. Level 3 - clear understanding with definition, relevant examples and diagram drawn accurately.

EV - 5 marks. Evaluation is developed with two of them good enough to access the top mark band.



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Examiner Tip

Be careful when drawing welfare loss. It was commonly drawn in the wrong place or not labelled.

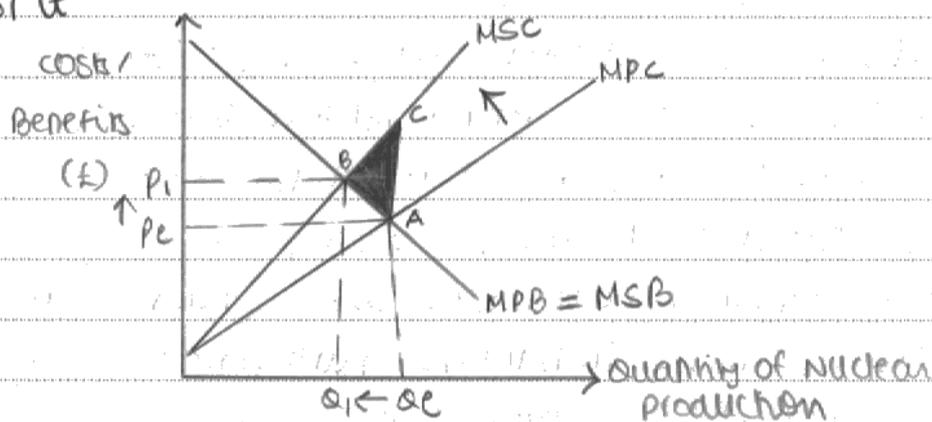
This response demonstrates strong levels of knowledge, application and analysis, clearly accessing the top mark. The evaluation is also strong but not developed enough to access the top level.

(c) With reference to Extract 2 and using the concept of externalities, examine the economic effects of nuclear energy production.

(14)

Externalities are spillover effects ^{to} third parties who are not directly involved in the production and consumption of a good or a service and are not compensated for them.

External costs \rightarrow negative spillover effects to third parties who are not directly involved in the production and consumption of a good or a service but are not compensated for it



The diagram above illustrates the market for nuclear energy production. The free market only accounts for private costs and benefits. Thus, the free market equilibrium is where marginal private costs equal marginal private benefits. However once, the external costs of nuclear energy are taken into account, the marginal

private costs shift out to the marginal social costs. The quantity of nuclear energy production decreases from Q_0 to Q_1 and the price of nuclear energy production increases from P_0 to P_1 to the socially optimal equilibrium at B. Thus society benefits from a welfare gain defined by $\triangle ABC$. ~~However~~ However at the free market equilibrium, society suffers from a welfare loss the size of $\triangle ABC$. Some of the external costs of nuclear energy production includes the widespread contamination of food ~~water~~ and water sources after a nuclear disaster. The nuclear waste is highly ~~reactive and~~ radioactive and remains for a very long time, and the contamination can cause the formation of various cancers in humans. Furthermore, the contamination can ~~endanger~~ endanger various animal and plant species. It is estimated that of the 700 000 that remain in the contaminated region, majority have a high chance of developing cancers and suffering from internal radiation exposure from the food and water.

However, we assume that there are no ~~at~~ external benefits ie (positive spillover effects to third parties) from nuclear energy production. The nuclear plants not only create direct jobs but also many indirect jobs in ~~these~~ telecommunications firms, ^{which can increase living standards}.

Moreover, the external costs of nuclear energy production are difficult to quantify and attach a monetary value to, whilst the significance of these costs can ~~lead to~~ cause the magnitude of the shift from marginal ~~social to private~~ costs to marginal social costs to vary. Thus the position of the socially optimal equilibrium can vary.



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Examiner Comments

This offers a detailed definition of externalities linking to spill over effects on third parties who are not compensated. The diagram has the curves accurately drawn and in the written explanation identifies market equilibrium, social optimum and welfare loss. Examples from the extract include contamination of food and water, cancers in humans, endanger animals and plants - 70,000 remain in the area being contaminated. Offers evaluation looking at job creation both directly and indirectly and looks at issues that make it difficult to place a monetary value on externalities and how the magnitude issues makes it hard to judge where the social optimum is.

KAA - 8 marks. Level 3 - clear understanding with a definition, diagram, and examples developed in context.

EV - 4 marks. Level 2 - two developed evaluation points.



ResultsPlus

Examiner Tip

When drawing the diagram for external costs remember that labelling the welfare loss, market equilibrium and social optimum is needed.

Question 9 (d)

Most were able to accurately define a renewable resource and certainly access the first mark, often referring to the fact it can be used again and again. Fewer were able to access the second mark for defining renewable. Nearly all picked out the example of solar power and less were able to identify hydroelectric as well. Some did use examples not related to the text but they had to link to energy so examples of fish stocks were not accepted.

Whilst only a brief answer it quickly accessed marks.

Renewable energy resources is the resources that can use again and again. ⁽¹⁾ Like wind, sunshine and so on.



ResultsPlus Examiner Comments

1 mark for use again and again. For example, sunshine was accepted in place of solar (1) and although wind was not in the extract (1), any renewable energy resource was accepted.



ResultsPlus Examiner Tip

Do use the extract to pick out examples and data, as typically on a 4 mark question, 2 marks will be for this application.

Develops the definition and gives examples from the extract.

(d) Explain what is meant by 'renewable energy resources'. (Extract 2, line 19)

(4)

The renewable energy resources: The energy resources can quickly replenish themselves.

be such as solar energy or hydroelectricity, they can be reproduced. The renewable energy resources are good for future production.



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Examiner Comments

One mark for quickly replenish themselves. 1 mark for each of the examples solar and hydroelectricity. One mark for good for future production.



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Examiner Tip

Examples taken exactly from the extract are useful here.

Question 9 (e)

The question required candidates to look at the impact of the guaranteed minimum price scheme on solar power in Japan. Better candidates were able to draw the minimum price above the equilibrium and were able to identify excess supply and the likelihood of the government having to purchase this. This work was in context and appreciated the ability to store and sell buffer stock was more limited. Weaker candidates often drew minimum price below the equilibrium and failed to talk in context so were talking about selling the solar power to Germany and saving it up until needed which is more difficult with electricity. These responses were standard minimum price responses you would expect for agricultural products.

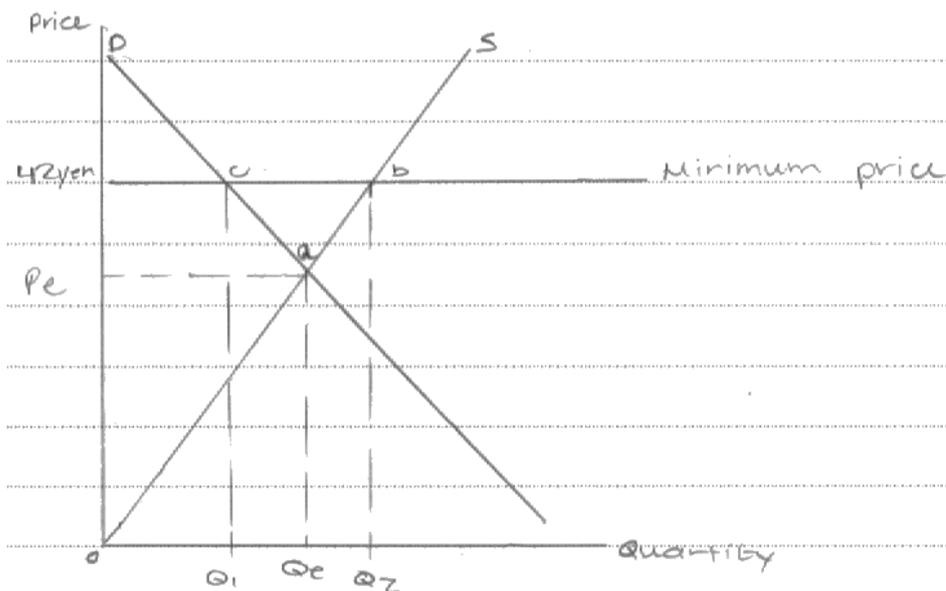
The candidate offers a well-developed response that is in the top mark band for both knowledge, application and analysis, as well as evaluation.

(e) Evaluate the decision by the Japanese government to introduce a 'guaranteed ~~resources~~ minimum price for solar power'. (Extract 2, line 14)

(14)

A minimum price is the smallest
least amount that can be charged
for a certain product.

Due to Japan's development of
solar power there is a need to
protect domestic supply of solar
energy from countries such as
France and Germany. The increased
price for solar energy will ensure
higher returns for people in the
energy sector and allow them to
increase output due to the increase
in profits.



The minimum price must be set above the free market equilibrium otherwise there will be no effect on the market.

The ~~consumer~~ producer surplus will increase from $P_e; a; O$ to

$P_2yen; b; O$. This will also cause a reduction in consumer surplus from $P_e; a; O$ to $P_2yen; c; O$.

However, solar power is already 'more expensive' and the minimum price could lead to a reduction in demand for renewable energy.

The extent of the minimum wage is unsure in relation to other forms of energy and their costs.

There is an opportunity for cost for

governments as they could be spending money on decontaminating the soil and ocean or providing clean food and water for the 70 000 inhabitants.

How long will the minimum price be employed and the long term effects may be long term causing even more government expenditure.

It also depends on the elasticity of demand for solar energy. If elastic then the price change will cause a decrease in demand.



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Examiner Comments

The candidate defines minimum price and gives a reason - to protect domestic supply. Identifies that this leads to higher returns and increase output. The diagram is drawn showing minimum price which is identified above market equilibrium. Identifies that producer and consumer surplus has increased. It also shows that the already high price will be even higher and there will be lower demand. The evaluation talks about opportunity costs where the government is spending and also the long term costs to government. It also evaluates by looking at elasticity of demand.

KAA - 8 marks. Level 3 due to clear understanding of minimum price in context.

EV - 5 marks. Level 3 response with developed evaluation points in context.



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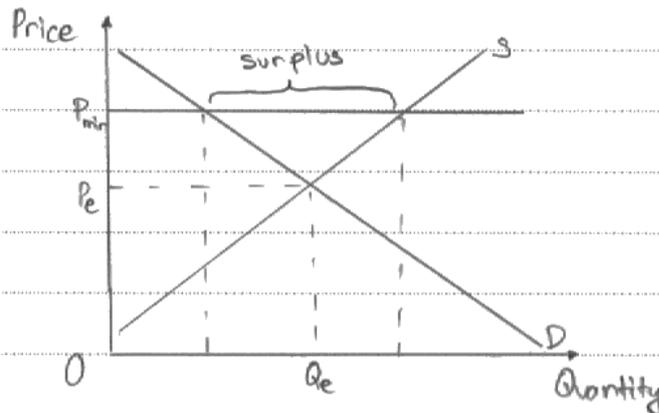
Examiner Tip

It would have been useful to have identified the excess supply/ surplus on the diagram.

A response showing really good knowledge, application and analysis but more limited evaluation.

(e) Evaluate the decision by the Japanese government to introduce a 'guaranteed minimum price for solar power'. (Extract 2, line 14)

(14)



A guaranteed minimum price scheme is set by the government to protect the suppliers of solar power and stabilise its price in the market. As a minimum price floor is set above the equilibrium price, solar energy cannot be bought at any price below P_{min} . This causes the suppliers to gain more revenue and higher profits due to the

higher price. Suppliers are likely to be incentivised to produce more solar power in the market and ^{there is increased} encouragement to invest more in ^{production of} solar power. It can also help suppliers to have a certain level of income which can help them plan production. ~~Price~~ Price fluctuations of solar power can also be reduced.

However, a minimum price scheme also has certain limitations. ~~It~~ It generates a surplus which may be difficult to deal with. The government may ~~not be able to~~ store the surplus in which case it will increase the costs of the government. The minimum price also needs to be set at a higher level for the scheme to be effective. Demand for solar power also needs to respond appropriately.



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Examiner Comments

This response includes a diagram showing minimum price and surplus. It talks about how the minimum price will stabilise price and protect suppliers. It explains that the product will not be bought below P_{min} . It also includes the fact that suppliers gain more revenue/ profits, which creates an incentive to produce and invest more. An evaluation is offered looking at the fact there is a surplus and this may cost the government.

KAA - Clear understanding of minimum price achieves level 3 and full marks. Ev - Brief evaluation achieving level 1.



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Examiner Tip

A 14 mark question needs 2 or 3 detailed pieces of evaluation.

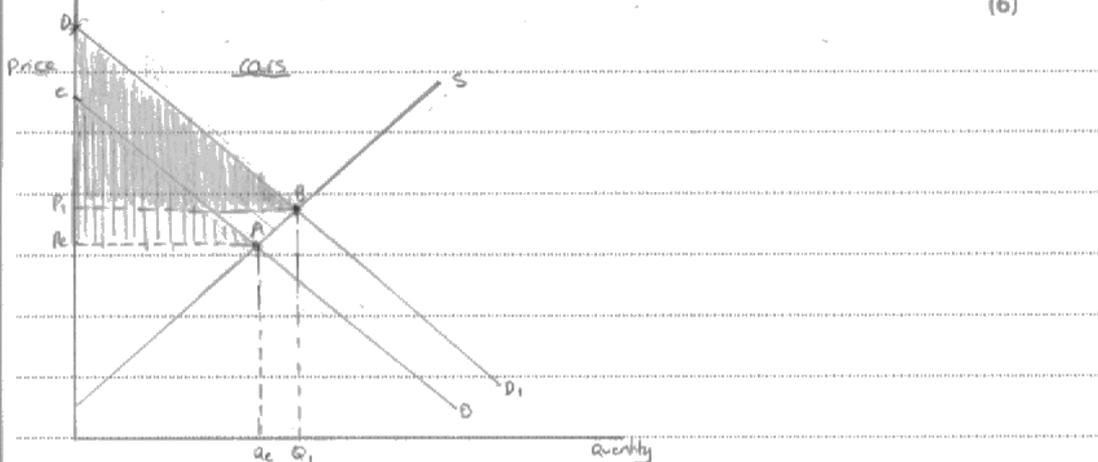
Question 10 (a)

This question focussed on the effect of changes in the car market on consumer surplus. It was pleasing that the data was normally explicitly used to show the growth. It was also good to see candidates manipulating the data to show the percentage change or difference between the two years. Candidates were rewarded for offering reasons from the extract as to why consumer surplus changed. The diagrams were typically accurately drawn in terms of supply, demand and equilibria. Where candidates really struggled was in showing the original and new consumer surplus. Centres would be well advised to get students to identify original and new consumer or producer surpluses and ensure they can identify the change. Labelling or referring to the triangle ABC and such methods was helpful in being able to award marks here. There was also a mark available for simply summarising the change such as saying consumer surplus increased. Responses were slightly weaker on average than the corresponding 6 mark question 9(a). This was due to the problems students had with identifying consumer surplus.

This candidate achieved full marks on the question. The diagram clearly shows the old and new consumer surplus. They used data in the extract to good effect.

(a) With reference to Figure 1 and Extract 1, explain the likely impact on consumer surplus of the change in demand for new cars between 2010 and 2012. Use a supply and demand diagram in your answer.

(6)



Consumer surplus is the difference between the price consumers are willing to pay and the price they actually pay.

Because of increased demand of car sales, there has been shift out of demand D_1 , world sales increased from 57.58 million in 2010 to 64.94 million in 2012.

Demand shifted out as a result of increased incomes and easier access to finance.

The original consumer surplus was P_0AC and the new consumer surplus is P_1BD , the consumer surplus has increased as the price consumers are willing to pay has increased.



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Examiner Comments

1 mark awarded for showing the shift in the demand curve, the old and new equilibria and the old and new consumer surpluses. The explicit data reference also earned 1 mark - 58.58m to 64.94m. Uses extract to identify causes of increased demand referring to increased incomes and access to finance.



ResultsPlus
Examiner Tip

It is worth explaining in the write up how the consumer surplus changes, by saying it increased.

This candidate uses the information in the data effectively and produces accurate diagrams that are explained to access full marks.

(a) With reference to Figure 1 and Extract 1, explain the likely impact on consumer surplus of the change in demand for new cars between 2010 and 2012. Use a supply and demand diagram in your answer.

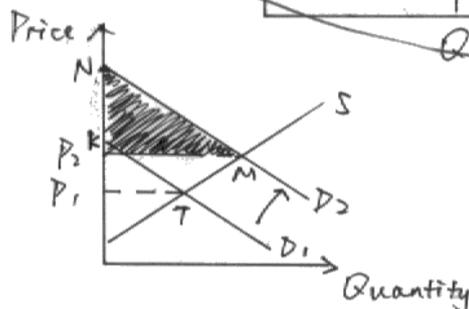
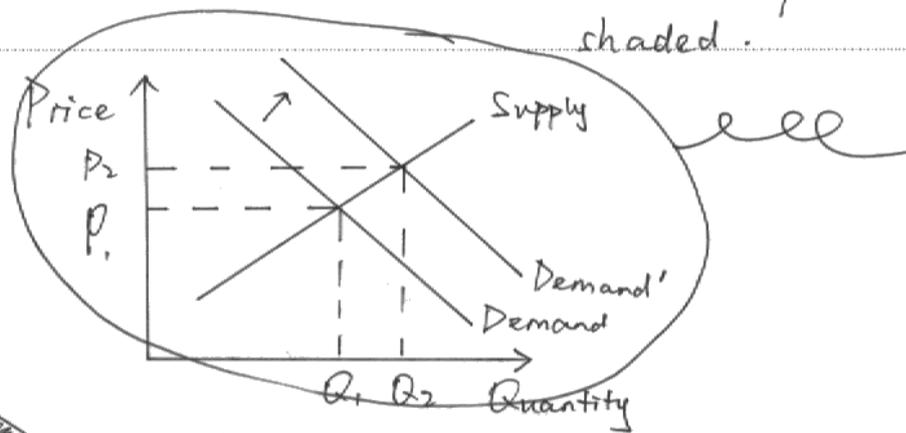
(6)

Consumer surplus is the difference in price that consumers are prepared to pay and the actual market price paid.

As employment and economic growth increase leads to rising incomes, the demand of cars increases from 58.58 million in 2010 to 60.80 in 2011 and 64.94 in 2012.

As mentioned in Extract 1, low interests made car purchases ~~more~~ easier on a loan from the bank.

Therefore, the demand curve has shifted to the right, bring the original consumer surplus KTP_1 to NMP_2 . The new consumer surplus is shaded.





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Examiner Comments

2 marks are awarded for identifying the cause of increased demand in terms of employment, economic growth, rising incomes and low interest rates. 1 mark for explicit data reference - 58.58m to 64.94m. 2 marks for diagram showing demand rises and equilibria. Consumer surpluses gains one mark.



ResultsPlus
Examiner Tip

If you end up drawing two diagrams, make it clear to the examiner which you want to be marked.

Question 10 (b)

The question enabled most candidates to demonstrate an understanding of normal and inferior goods with most defining both accurately. Those that tended to perform less well on the paper typically referred to rising incomes and rising demand without explicit reference to data. Those that did well overall tended to explicitly use data that showed rising demand and also rising incomes.

This response makes good use of definitions which achieve one mark each and uses the extract to identify changes.

(b) With reference to Figure 1 and Extract 1, explain whether cars are a normal or an inferior good.

(4)

Normal goods ($YED > 0$) - demand is increasing with the increase of income

Inferior goods ($YED < 0$) - demand is falling with the increase of income.

Extract 1 shows that due to economic growth, incomes were also increased. Since incomes are rising and demand for cars is also rising over past years - YED is positive. So car is a normal good.



ResultsPlus Examiner Comments

Defines both normal and inferior good and then refers to the extract in terms of income and car sales. The final mark was awarded for identification that the relationship between the two is positive.



ResultsPlus Examiner Tip

The candidate received two ticks for each definition of normal and inferior goods but could only earn one mark for each.

This was a standard response which defined normal and inferior and applied it to the context provided.

(b) With reference to Figure 1 and Extract 1, explain whether cars are a normal or an inferior good.

(4)

$$\text{Income elasticity of demand} = \frac{\% \Delta Q}{\% \Delta Y} \quad (\text{YED})$$

Normal goods have a positive YED. When people's incomes increase, the demand for the goods will increase.

Inferior goods have a negative YED. When incomes fall, the demand for them will increase.

Car is likely to be ^{normal} inferior goods in the USA. Because car sales increase in Asia and South America and the sales also increase. ~~from~~ £ (11.17m to 13.18m in China) ^{resulting from economic growth}



ResultsPlus Examiner Comments

The candidate received 1 mark for defining normal goods and 1 mark for defining inferior goods. The reference to incomes increasing in Asia/ S. America and the car sales increased, accessed the 2 application marks available.



ResultsPlus Examiner Tip

On four mark questions, 2 marks will be available normally for definitions and the other 2 for application to the case study, so refer explicitly to numbers or information in the data.

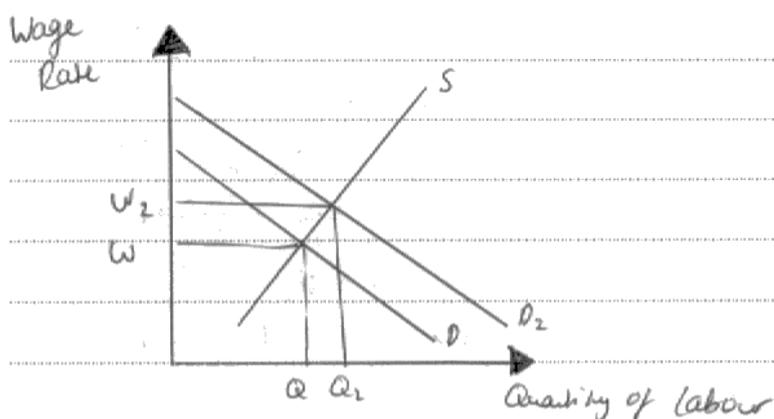
Question 10 (c)

In question 9b, the candidates linked the energy market to the labour market and some struggled with this. Here the responses were generally slightly better. Most candidates referred to the increased sales of cars and then drew a diagram showing increased demand, a higher wage and quantity of labour. There was some good evaluation on this question. A common response was to refer to the fact production may be capital intensive and that the supply of labour may take time to emerge due to skills needed.

A strong response with diagram, reference to data, explanation of derived demand and strong evaluative points.

(c) Discuss the likely impact of the increase in demand for new cars on wage rates in the car industry.

(10)



The demand for workers is a derived demand. The increase in demand for new cars will increase the demand for car workers eg. engineers. This can be seen from the increase in jobs of 167 500 between 2009 to 2013, in which the demand for cars has increased within. More labour is required to produce more cars.

Therefore, the wage rates will likely increase in the car industry. Demand will increase from D to D_2 , and wage rates will increase from W to W_2 , and employment from Q to Q_2 .

However, the extent of the increase in wage rate will depend on the price elasticity of supply for car labour. Engineers and technicians are highly skilled occupations, suggesting a more inelastic supply. Therefore wage rate increases for these occupations will be significant.

On the other hand, factory workers will be

less skilled, and will have a lower elasticity of supply; therefore wage increases will be smaller. Furthermore, the demand for new cars has only grown ~~marginally~~ ^{tremendously}, as seen by ~~only~~ a 4% growth in car sales in the first half of 2013. World sales from 2010 have increased by approximately 11%. Therefore, there is more likely to be a greater increase in derived demand for labour, resulting in a greater rise in wages rates.

In conclusion, an increase in demand for new cars is likely to increase wages rates in the car industry. However, the increases may differ from occupations.



ResultsPlus Examiner Comments

This candidate produced an accurate diagram showing demand increasing, wages rising and quantity of labour increasing. The idea of derived demand is explained and reference to increased demand for cars, and how this will increase demand for car workers, is made. The candidate refers to the data in terms of the numbers employed (167,500 increase) and evaluates by referring to inelastic supply for engineers leading to wage rise being significant. There is a second evaluative point about the large increase in demand leading to the large increase in wages.

KAA: 6 marks. Level 3 response, with clear understanding of the impact of increased demand for cars on the labour market.

EV: Two well-developed points achieving level 2 and full marks.



ResultsPlus Examiner Tip

The evaluation refers to data to back up arguments which is an example of good practice.

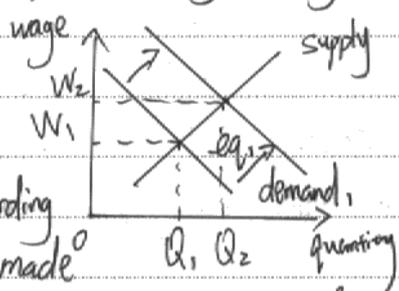
The candidate achieves full marks for both their knowledge, application and analysis and evaluation.

(c) Discuss the likely impact of the increase in demand for new cars on wage rates in the car industry.

(10)

Increasing demand of new cars obviously lead to higher prices encouraging car producers to increase their supply. In this case, more workers are demanded by car factories which is shown by extract 1.67. 500 jobs are created by expanding car industry. Consequently, workers in car industry would experience higher wage rates.

However, according to figure 1, the influence would be modest because car sales increase slightly in India from 1.95 million to 2.02 million. Besides, according to extract 1, only 4% of increase is made so that the wage rates of worker might not grow significantly. Besides, car factories are already operating at 75% capacity and they are actually buying new machines to increase improve the technology which would offset the demand of new workers therefore the wage rates would not grow significantly. Furthermore, car industry requires workers with general skills and with enough supply so that wage rate will not increase significantly as the result of plentifulness.





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Examiner Comments

The candidate identifies that the demand for cars rises, leads to higher prices which incentivises them to increase supply and more workers are demanded. There is also reference to the extract in terms of 167,500 jobs being created and to higher wages and higher quantity. This is also shown diagrammatically.

An evaluation is offered and reference is made to India and the fact it is a small change, so the change in the labour market will be modest and the labour market may not grow significantly. There is a second evaluation point about new machines offsetting demand for labour, so wages may not rise.

KAA - 6 marks. Clear understanding with knowledge, application and analysis. EV - 4 marks. Two developed evaluation points.



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Examiner Tip

Using direction arrows helps direct the examiner to what you are showing in the diagram.

Question 10 (d)

Most candidates could define a subsidy and show diagrammatically the effect on supply and equilibria. The top performing students were able to show what part of the subsidy benefited the producer and surplus and the unit or total subsidy. Most responses focused in on the electric car market and the best work tended to look also at the impact on the fuel car market. Evaluative points tended to focus on opportunity costs of the funds used, the lack of impact of the previous subsidy and the weak infrastructure.

A very strong example of knowledge, application and analysis and a strong evaluation. Good use of context to complete the response.

(d) With reference to Extract 2, evaluate the possible effects on the Chinese car market of the government's subsidy for electric cars.

(14)

Subsidy is a grant given to the producers to decrease the cost and prices of the goods.

The subsidy might help to cause less pollution due to being more environmentally friendly. It also reduces the possible external costs.

Increased subsidies might cause an increase in supplies of cars, this might also cause an increase in the employment level, which might mean increased output, GDP might

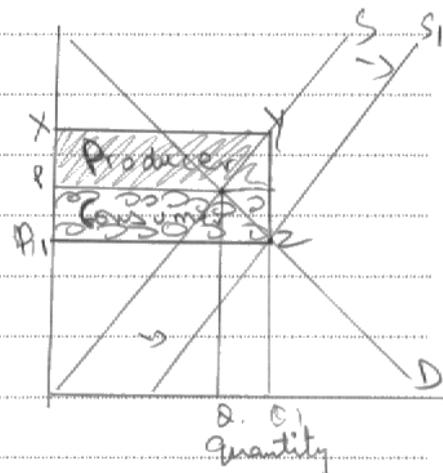
also increase, the income might increase and so the standard of living might increase.

The consumer and producer surplus might increase.

However, it depends on how long the subsidies are in operation.

The subsidies might not be given in long term.

This might make the car supplier depend on government's subsidies all the



time.

Time factor might be considered:- If the subsidy is spread over long term or long period of time then its effects might be low.

It might be difficult to attach a monetary value on the subsidies.

It might add up to governments expenditure i.e. XYZ P, (from the diagram) and would be costly or giving 60,000 to electric cars & 30,000 RMB

It depends on how the firm use their subsidies in investment. Some might fail to use it efficiently.

Previous subsidies were ineffective as only 11375 were sold & high prices of petrol may mean decreased demand.



ResultsPlus

Examiner Comments

The candidate defined subsidy accurately and then linked this to how it would be more environmentally friendly as it reduced external costs. Next it was stated that there will be increased supplies of electric cars and the fact that employment may rise, with reference to consumer and producer surplus both increasing. The diagram is accurately drawn showing increased supply, lower price and higher quantity. The producer and consumer subsidy and total government expenditure on the subsidy are referenced as well as data on size of subsidy too. It is awarded full marks for knowledge, application and analysis.

The evaluation offered is detailed and achieves level 2. The candidate looks at it being dependant on how long it is on offer and the fact the previous was ineffective. Total score is 12.



ResultsPlus

Examiner Tip

When showing subsidies, try to identify the size of the subsidy and what goes to the producer and consumer.

A strong response achieving full marks. Whilst the candidate did not identify the size of the subsidy, the written explanation was extremely detailed and identified key effects on a number of areas.

(d) With reference to Extract 2, evaluate the possible effects on the Chinese car market of the government's subsidy for electric cars.

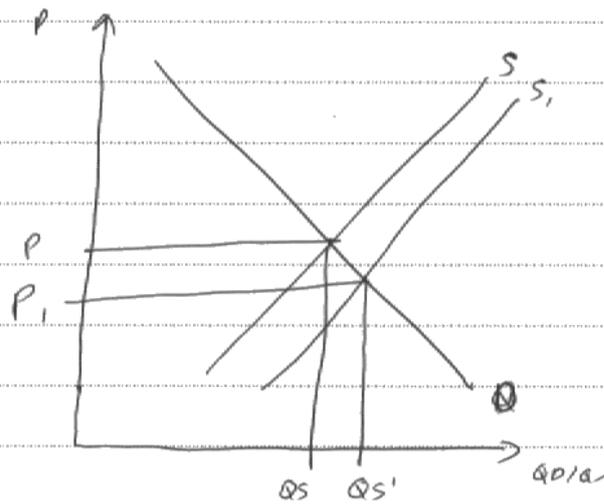
(14)

Subsidy is a grant given by the government, this may be done to encourage more production or lower the cost of production. A subsidy of RMB 60000 is given to electric cars, and RMB 35000, to petrol-electric hybrid cars. When subsidies are provided to the Chinese car market, their cost of production of electric cars will reduce.

There will also be an increase in the consumer surplus. ~~As~~ The provision of subsidies which was larger in 2012 led to 11375 electric cars being produced. Electric cars are usually higher priced than normal cars, and this would discourage the consumers to purchase them.

Also, the car producers are not willing to produce electric cars as the cost of production is very high and the demand for electric cars are low.

Electric cars are also less more environmental friendly, this would help and give a motive to the government to provide more subsidies for electric cars.



The supply will increase for electric cars, and also the price level would reduce.

However, there may be an opportunity cost to the government, of providing subsidies they can use this money for healthcare or other infrastructure projects. Also even after the provision of electric subsidies

to electric car producing firms, it may still be more expensive than normal cars, so people may decide to purchase normal cars.

The government provides subsidies for electric cars in order to avoid reduce prices of them, and provide an incentive for consumers to purchase them, in order to reduce carbon emission.



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Examiner Comments

This response offers a definition of subsidy, showing that it lowers costs. This is followed by the identification of the size of the subsidy and that consumer surplus increases. It also talks about the policy being more environmentally friendly. A diagram to show supply rises, price falls and quantity rises is included. Full marks for knowledge, application and analysis as there is clear understanding of key issues and detailed analysis. There is breadth and depth of analysis to access full marks for evaluation. Reference is made to the larger subsidy that led to 11,375 electric cars and that firms may not be willing to produce electric cars as the cost of production is very high. A link is made to opportunity costs of the subsidy and how normal cars will be still bought as electric cars are still expensive.



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Examiner Tip

When evaluating on a 14 mark question, develop two or three in detail; more than this means you will probably not have the required detail.

Question 10 (e)

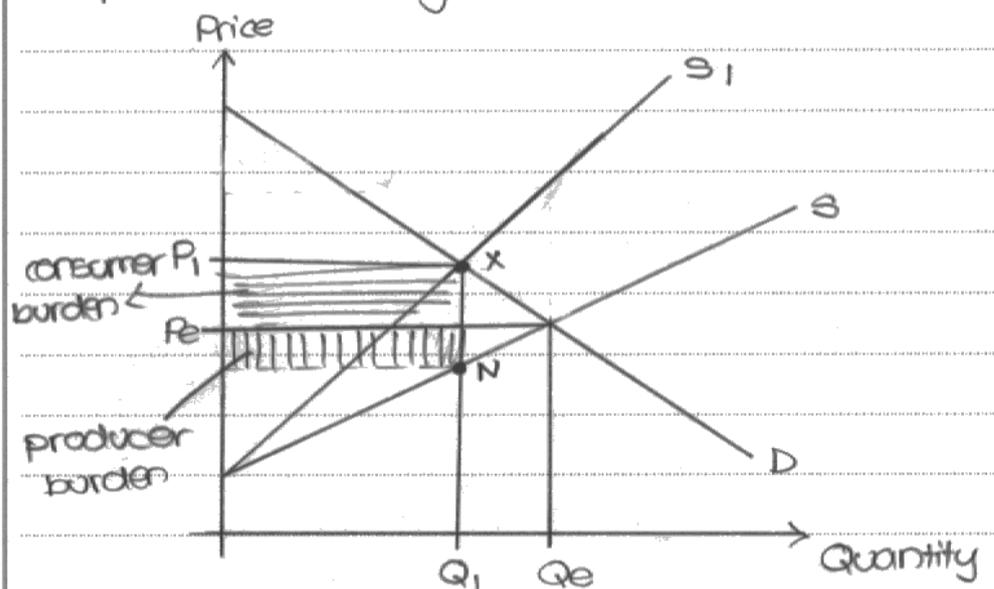
Most responses were detailed and included the necessary diagram. Many produced a supply and demand diagram, although others did an externalities diagram. Only the best of these actually shifted the supply curve to show the indirect taxes impact. With supply and demand diagrams, it was the total tax or incidence which was often ignored or wrongly drawn. A significant number were clearly running short of time and reverted to bullet points and briefer responses meaning they were not able to offer the detail required to access level 3. Answers tended to focus on the impact on the car markets for petrol and electric cars. Fewer than you would expect looked directly at the impact on the fuel market. Evaluation here tended to look at the fact demand is likely to be inelastic and therefore quantity will not change much and better responses then linked this to the incidence of the tax. Another common response looked at how funds can be used to help the environment.

This was one of the better responses in terms of diagrams but could have focused in more on the fuel market.

(e) Evaluate the likely impact of the planned increase in indirect taxes on fuel on the level of car emissions in China. Use an appropriate diagram in your answer.

(14)

An indirect tax is a tax levied on expenditure of goods and services. There are two types of indirect tax — specific tax and ad valorem tax. The Extract talks about ad valorem tax which is a percentage of the total expenditure on goods and services.



An ad valorem tax causes a non parallel shift in the supply curves. From the diagram we see that the vertical distance between the two supply curves (XN) represents the added indirect tax. The indirect tax increases the cost for consumers and therefore a rational consumer will act by reducing the

consumption of fuel and maintaining his real disposable income. Extract 2 states that the indirect tax in Beijing increased by 40% while tax on small car engines was lowered to 1% from 3%. This acts as an incentive for car manufacturers to develop more fuel-efficient vehicles if it is to protect its profit margins.

However the final impact will depend upon the magnitude of the indirect tax. If the indirect tax is too small, this will have little effect on the government's objective to reduce external costs. This is a hard sell from the government as external costs are can not be measured.

Fuel is considered to ~~be a~~ have an inelastic demand (i.e. a small increase in price does not affect quantity demanded by a large extent). Therefore producers may get away by passing on the tax burden to consumers. This will greatly affect the low income workers who have a limited income. It

may even increase income inequality in China.

~~However with the extra tax revenue~~



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Examiner Comments

This response defined an indirect tax. It draws the supply and demand diagram, showing the shift in supply due to their higher tax, price rising and quantity falling. It also refers to the producer and consumer burden as well as the size of the tax. There were arguments on the fact more fuel efficient cars would exist but they linked this to a tax on cars not fuel, so no credit was awarded.

KAA: 6 marks. A level 2 showing sound understanding but needed to link external costs to fuel to do better.

The evaluation was strong with a look at magnitude - with little effect on external costs if the tax was too small. It also refers to inelastic demand and how the burden of the tax will be passed on to consumers which could affect low income earners. The response was in level 3 although not at the top of this band: 5 marks.



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Examiner Tip

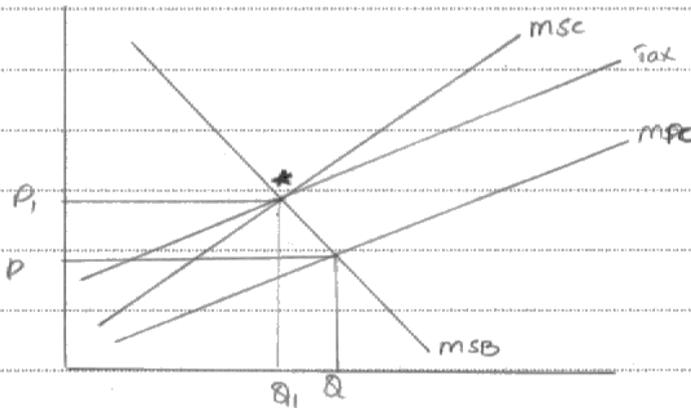
This candidate talks at length about ad valorem taxes. Many others had very long discussions on the difference between ad valorem and specific taxes which added little to the responses as it did not really answer the question.

This response showed a strong level of knowledge, application and analysis accessing the top mark band. The evaluation was brief and in the lowest mark band.

(e) Evaluate the likely impact of the planned increase in indirect taxes on fuel on the level of car emissions in China. Use an appropriate diagram in your answer.

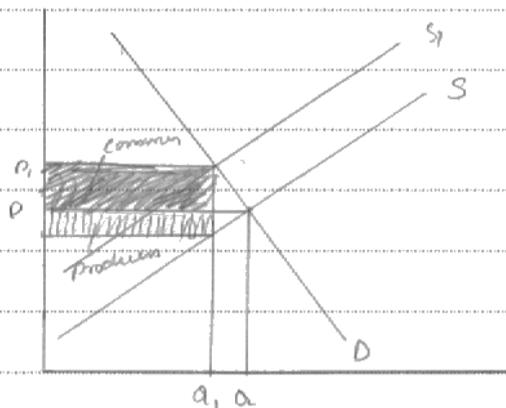
(14)

Indirect taxes are the taxes ~~burden~~ levied on goods and services eg:- VAT and specific tax.



When the Chinese government impose tax on the fuel on the level of car emissions, the cost of production of firms increases and therefore will increase prices and decrease quantity. This diagram shows the tax on the external cost i.e. Carbon emissions from fuel. Due to this increase in prices the demand for ~~car~~ its complement which is cars will reduce. This is because when consumers can't afford ~~car~~ fuel, they won't buy cars. These indirect taxes ~~will help the firms~~ in turn make the government's ~~aim~~ more successful.

However due to this increase in taxes the firms might put all the burden on consumers by higher prices of cars.



The diagram above shows the effect of tax on consumers and producers. There is more burden of tax on consumers than on the producers. More burden is on consumers as they end up paying higher prices for the cars. ~~there~~



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Examiner Comments

The candidate defined indirect tax as one that is levied on goods and services. The externality diagram was accurately drawn with the curves including the tax in the correct place. The other diagram was better and this counted towards the final mark. The candidate identifies that the cost of production will rise causing an increase in price and decrease in quantity. They looked at the impact on the market for the complement cars, showing that demand would reduce, as people who cannot afford fuel will not buy cars. For evaluation, the burden on consumers was brief.

For knowledge, application and analysis this scored 7 marks as it showed clear understanding of the effect of tax on fuel linked to carbon emissions. For evaluation, it scored 2 marks as it was brief and not well developed.



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Examiner Tip

Do remember the diagrams need the axis to be labelled.

Paper Summary

Key points

- There was a significant improvement in performance on the supported multiple choice section as well as improvement in the performance on 14 mark questions.
- 4, 6 and 10 mark questions performed slightly less well on average than in the January series.
- Overall there was an improvement in the quality of responses offered.

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

- On supported multiple choice questions where a diagram is drawn, it is usually advisable to annotate it. Many draw the same diagram again adding annotations to that, but this wastes time in the exam.
- Be careful to read the question stem carefully. On question 4 many wrote about how output, productivity and boredom will be increased when the stem asked about what would be reduced.
- Candidates and centres need to do more work on consumer behaviour and why people will not switch to better deals. The mean score on question 7 was low although many got the right answer. Students found it very difficult to explain habitual behaviour.
- More care needs to be taken getting students to understand the difference between minimum and maximum prices and which of these causes shortages and surpluses, as this was confused by many.
- Always draw a diagram when it explicitly asks for one on the question.
- Label the axis and curves on diagrams.
- More care needs to be made when drawing consumer and producer surplus, especially where demand or supply shifts.
- When showing the effects of subsidies and indirect taxation is it worth students identifying the total tax and the incidence or burden of the tax. When this was done it was not always accurate.
- Practice is needed in drawing externality diagrams- these were better than the previous session but still 'welfare loss' was often drawn in the wrong place. Care also needs to be taken to label it explicitly.
- On 14 mark questions, evaluation points are needed - students will be credit for two or three well developed evaluation points.

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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