Pearson Edexcel

Examiners' Report
Principal Examiner Feedback

October 2023

Pearson Edexcel International Advanced Level In Economics (WEC11)

Unit 1: Markets in action

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October 2023
Publications Code WEC11_01_ER_2310

Introduction

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

In Section A, the multiple-choice section, Q1 involved identifying the example of government failure. The vast majority could identify that this was the introduction of a tax causing an increase in smuggling. This was the question candidates performed most well on in Section A.

The performance on Q2 saw just above half able to identify that the natural disaster is most likely to cause the production possibilities to decrease. The table presented showed the maximum production of capital goods and consumer goods falling. Most that got it wrong suggested that this was because of a rise in unemployment. This would cause the economy to be operating below the PPF rather than shifting PPF inwards as indicated in the table.

Q3 saw marginally better performance that the previous question. The question shared data on price elasticity of demand for selected car types. Candidates needed to understand that the inelastic demand for diesel cars would mean that an increase in price would result in an increase in total revenue. Hence C was correct.

Q4 was a question that four-fifths were able to achieve the mark on. The paper shared an external benefits of consumption diagram. Candidates were typically able to identify that the welfare gain area was UWX. Where they got it wrong, they tended to wrongly select D which had the wrong area.

For Q5 candidates tended to perform marginally worse than on the previous question. Most could identify that the excessive risks made by bank staff was an example of moral hazard.

Q6 illustrated the relationship between the price of PlayStation 5 and the quantity demanded of Xbox Series X games consoles. It was pleasingly that the vast majority could identify that these two goods were substitutes.

In Section B, Q7 asked learners to draw a diagram to illustrate the likely impact of a decrease in real incomes in Laos on the market for domestic holidays which was a normal good with a positive YED of +1.36. This was previously a challenge for learners when testing the impact of income changes on supply and demand. It was pleasing that performance was stronger in this series. A number still shifted demand incorrectly to the right so careful attention to reading the stem is needed.

Q8 explored irrational behaviour with the difference between herding and inertia needed. Herding was generally well understood with most making reference to people following the actions of others, particularly friends and family. This often led into the application that 39% had the same bank as their parents. To access the application mark it was important to use the percentage. The concept of inertia is often confused with habitual behaviour. It is important that the

difference between habitual behaviour and inertia is understood. Key is that inertia is where the consumer feels the effort to make the change is too great and they decide not to switch. Explicit reference to 13% not wanting to take the effort to switch accessed the final application mark.

Q9 asked for candidates to explain one role of financial markets. Many offered a couple of roles but only the best explained was rewarded. Typically, candidates could access two of the marks available. Most identified facilitate savings and offering lending to firms. The application mark was often picked up for reference to the data in the stem. It was the analysis mark which were often not achieved. Those that did successfully achieve the two marks looked at how this supported firms in terms of enabling them to invest and how the increase in capital stock would enable increased output. Or they explained how savings involved people saving for future purchases of larger items.

Q10 required the calculation of the price elasticity of supply. Most did write the price elasticity of supply definition or formula. Many candidates then put the values in the formula without calculating the precentage changes of quantity demanded and income. Some get the answer wrong and because the intermediate steps are not calculated they lose marks, often finishing with one or two marks. The question did still have the highest mean score in Section B. One other common error is to calculate the percentage change in price before calculating the percentage change in quantity supplied. They would then put the precentage change in price divided by the percentage in quantity supplied which gives the wrong answer.

Q11 The final question in Section B looked at the impact of the introduction of an indirect tax on online paperback books in Vietnam. The stem explained that the tax was charged at 10%. This should have resulted in candidates realising that this was an ad valorem tax. This should have resulted in them pivoting the supply curve. Many however drew the correct leftward shift but shifted it as if it was a specific tax. It was pleasing that so many defined an indirect tax and then drew the change in quantity and price on the diagram to gain the final two marks. Any other explanation of the impact of the tax was awardable when accurate.

Section C focused on the materials in the source booklet that related to the market for fertiliser.

Q12a required a definition of a'tradeable pollution permit scheme'. Most could identify that it was where firms were allowed to pollute up to a certain level. Fewer could then go on to explain that these permits could be bought and sold.

Q12b asked learners to explain whether the supply of phosphate rock was likely to be price elastic or price inelastic. Typically, just over half marks were awarded on this question. Few achieved both application marks. Commonly they referred to 5 countries supplying 85% of world supply or Morocco producing 70% of world supply. Even fewer made reference to the limited supply or scarcity. Many could identify that the price elasticity of supply would be price inelastic.

Q12c required an analysis of one demand factor and one supply factor that caused the price of fertiliser to increase. Candidates often identified a number of demand or supply factors but only one of each was awarded. For demand factors many identified demand increasing by 6.3% or government paying subsidies to farmers. The latter for some did cause confusion as they shifted supply incorrectly to the right but of course the subsidy increased the quantity of crops to be produced and thus the amount of fertiliser farmers demanded. The other demand factor rewarded was that higher crop prices in 2021 created an incentive to grow more crops and use more fertiliser. The supply factor most commonly identified was the poor weather or winter storms. Some did identify that the increase in the world price of gas pushed up production costs. Four marks could be achieved for the diagram. Firstly, the original supply, demand and equilibrium. Secondly, the correct shift of demand to the right and thirdly, the correct shift of supply to the left. The final mark was for the final equilibrium having correctly shifted supply and demand. Where only one curve was shifted the final equilibrium mark was not awarded. However, a mark was available for reference to Figure 1 and the price change, although this needed to focus on January 2021 and April 2022. Over 40% of candidates achieved full marks which was pleasing.

12d was an examine question that required two marks for evaluation. It was the latter element that was commonly omitted. The question was well answered. Nearly all achieved both application marks by making reference to fertiliser accounting for 10% of Canada's greenhouse gas emissions and the subsidy being worth $750 million over 10 years. Fewer made reference to the 2030 target for gas emissions reduction. Many were awarded for correctly drawing a diagram showing the correct shift in supply and the impact on the equilibrium price or quantity. There were then two avenues to take on focused on the impacts on organic framing or on the fertiliser industry. Evaluation often focused on opportunity costs or the magnitude of the subsidy.

The final question in section C, Q12e required a discussion of the external costs associated with the production and use of fertiliser. A diagram was requested and most correctly drew the external costs of production diagram. The definitions of external costs were normally accurate with reference to the negative impact on third parties. The examples of external costs could then be identified from the

extract but to access the higher level this needed to consider who and how the third party was affected. For example, many spoke about the fertiliser washing into rivers but needed to link to how this affected the fishing industry to offer sufficient development. Similarly, carbon emissions from the gas used in production needed to be linked to greenhouse effect, global warming and the impact on communities who get flooded. Evaluation often focused on the difficulty in measuring value of external costs, external benefits from production of fertiliser and arguments about magnitude.

Section D had a choice of two essays. Q13 was by far the most popular question on evaluating the microeconomic effects of an increase in the maximum price of electricity. Q14 required an evaluation of the microeconomic effects of imperfect information on insurance markets. The mean score on Q13 was higher than for Q14.

The stem for Q13 identified that the maximum price for electricity had increased from £0.28 to £0.34 per kilowatt hour. The response needed a focus on the maximum price increasing. A number unfortunately looked at the introduction of a maximum price in both their diagram and analysis. This limited the level they were able to achieve. Those able to achieve Levels 3 and 4 were able to accurately draw the diagram showing the two levels of maximum price and identified the extension of supply and contraction of demand. They were able to explain how the shortage would reduce. It was pleasing the number now making reference to the diagram in the analysis offered. Many evaluated by referring to the scale of the change, the elasticity of demand for electricity being inelastic and government failure.

Q14 Many struggled on this question. Most were able to demonstrate knowledge and understanding of information failure, asymmetric information and market failure. Where many struggled was in applying this to the insurance market. Many could use the stem to explain why consumers did not buy travel insurance but needed to consider the microeconomic effects of this. For example, considering the underconsumption in the market and the lack of profitability for the insurance firms. Many also considered drivers not declaring full information but struggled to link to this to the effects. For example, consumers being offered cheaper premiums and claims being higher resulting in reduced profitability for the insurance provider. Common evaluation focused on how the effects could be reduced through use of medical records, how the information gaps could be closed by the internet or publishing of relevant information.

Most learners were able to complete the paper in the time available. We did however see several unfinished or very brief essays suggesting that some students had not planned their time well.

The performance on individual questions is considered in the next section of the report. the feedback on each question shows how they were well answered and also how to improve further.

Section B, the short answer section, saw students able to access marks on most questions.

Q7, the impact of the decrease in real incomes on equilibrium price and quantity. Most accessed two marks for the original supply and demand and equilibrium. Many showed demand increasing incorrectly. With falling real income for a normal good the demand would shift leftwards.

Q8, a common error is to confuse inertia and habitual behaviour. Centres need to ensure focus is paid to how these are different. With the need to understand that inertia is about consumers not wishing to put in the effort to switch to a better deal. Herding was much better understood. It is also important to explicitly use the numbers from the stem in the examples for inertia and herding.

Q9, required the identification of just one role of financial markets. Many offered more than one and were rewarded for their best response only. Given the stem it was unsurprising that the focus tended to be on facilitating saving and lending to consumers and firms. Once again explicit reference to the stem and the financial values and percentages was important.

Q10, involved calculating price elasticity of supply. Fewer erroneously including a percentage sign or negative sign with their value of price elasticity of supply. One approach now being commonly seen is to write the formula and then to put the intermediate calculations or formula without calculating the value of each stage. This meant the 2 marks for the calculation of the percentage change in quantity supplied and price were frequently not awarded when an incorrect final answer was given. Candidates are asked to include workings so should do so comprehensively. Another common error was to calculate putting the formula the wrong way round. If the formula or definition were correct and the intermediate stages were correct then three marks could be achieved.

Q11, the stem shows that the Vietnam Government has introduced a 10% indirect tax on online sales. Many could not identify that this was an ad valorem tax and did not pivot but shifted the curve. This means they missed out on a mark. Many did move supply in the right direction so were credited with the correct changes in price and quantity.

Section C, the Data Response section.

Q12a, required a definition of tradeable pollution permits. Two elements were needed. The permit scheme where firms are given an allowed amount of pollution they can generate and the tradeable aspect where they can buy and sell these permits.

Q12b, it is important to note that two marks are awarded for application. Many only offered one example form the Extract, two were needed. It was also important to explicitly identify that supply was price inelastic and to define this. No marks were awarded for definition of price elasticity of supply.

Q12c, the question required one example of a demand factor and one supply factor from Extract A. A common mistake was to talk about the government subsidies for farming but to talk about how this causes supply to increase when in fact it increases demand for fertiliser as firms increase their supply of crops. Four marks are available for the diagram but given the question asked for a supply and demand factor it was important to shift both supply and demand. When only one was shifted an additional mark was available for reference to Figure 1. But not shifting both curve means the final equilibrium mark was not awardable.

Q12d, it is important to remember that there are two evaluation marks available for this question. Many omitted offering a different viewpoint to access the evaluation marks. These marks could be awarded for two evaluative comments on the development of one evaluation point. Many drew a diagram for this question and were credited up to 2 marks for this.

Q12e, when asked to draw a diagram it is important to include one in the response. In this case an external costs of production diagram. Many candidates omit adding the welfare loss area, social optimum and market equilibrium which are useful to identify on the diagram. It is also important to integrate the diagram into the analysis. The key when using the external costs is to develop who and how the external costs impact third parties. It is also important to offer a different viewpoint in evaluation. For example, considering the external benefits, difficulties in measuring the size of external costs and the magnitude of these costs.

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

Q13, when evaluating the impact of an increase in the maximum price many mistakenly analysed the introduction of maximum price which limited significantly the level they could achieve. When showing the impact on supply it is useful to use the language of the extension of supply and the contraction of demand. It is also important to understand that the shortage reduces.

Q14, required a focus on the microeconomic effects of imperfect information on the insurance markets. Many looked at why there is imperfect information rather than focusing on the impact. The key consideration of how this affects consumers and insurance firms was needed and was often omitted.

Paper Summary

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

Section A: Multiple Choice Questions

• Ensure that candidates are familiar with maximum production possibilities shown in a table as presented in this exam. This was unfamiliar to many and they struggled in what was a straightforward question.
• The concept of moral hazard was also more challenging. The moral hazard associated with bails out of the banking sector would be useful to explore when teaching this topic.

Section B: Short Answer Questions

• When asked to draw a diagram on Q7 all marks area available for the diagram so no accompanying commentary is needed.
• In Q8 many struggled with defining inertia as they confused the concept with habitual behaviour.
• On Q10, when calculating the price elasticity of supply, it is helpful to calculate the intermediate stages that is the % change in quantity demanded and % change in income. When the final answer is incorrect these to calculation can gain two marks.

Section C: Data Response

• On Q12(c) when asked for a demand factor and supply factor both supply and demand curve will need shifting.
• On Q12(d) when asked to examine it is important to offer evaluation in the response as two marks are available for this.
• On Q12(e) when drawing the external costs diagram it is important to show the market equilibrium, social optimum and welfare loss areas.

Section D: Essay

• It is important to focus on the question asked. Too many focused Q13 on the introduction of a maximum price rather than an increase.
• On Q14 the effects of imperfect information were needed but many just wrote all they knew about imperfect information and much of the responses did not focus on the question. When asked to consider the effects it is worth considering different economic agents, e.g. consumers and insurance companies.