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Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel International Advanced Level
In Economics (WEC11)

Unit 1: Markets in Action

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Introduction

This series there was a significant increase in the numbers entered. There were many examples of better work seen with learners more likely to be able to achieve the top level on level based questions. Equally there were some learners who struggled to perform consistently across the paper. Although this was less common.

In Section A, the multiple-choice section, Q1 asked learners to identify a disadvantage of a free market economy. Most could identify that the non-provision of public goods was a disadvantages of a free-market economy. When students got the question wrong they often incorrectly identified the possibility of government failure. The free market economy has a limited role for the government with a focus on the price mechanism so government failure is unlikely.

Q2 required the identification of the most likely result from the introduction of a minimum guaranteed price. This will result in an extension of supply and contraction of demand resulting in excess supply of milk. It was pleasing to see so many sketching the diagram to help them identify the correct answer.

Q3 needed students to identify the function of money. The vast majority did identify correctly that it acted as a medium of exchange.

Q4, gave a diagram to show a Production Possibility Frontier (PPF). The students needed to identify on the diagram the opportunity costs of a movement along the PPF. It was the movement from X to Y that has an opportunity cost of 17 capital goods as consumer goods increase 28 units.

Students performed well on Q5. Students were given a diagram showing electricity generation from a range of sources. Most could identify that electricity was mostly generated using non-renewable resources

Q6 saw students perform well with most able to identify that all three goods- electric, plug-in hybrid and diesel were substitutes to petrol engines as the XED was positive.

In Section B, Q7 asked learners to draw a diagram to illustrate the impact of imposing an indirect tax on aviation fuel for private jets. The stem made it clear that the tax was set a rate of €0.65 per litre. Learners needed to pick up that this made it a specific tax and needed them to shift the supply curve to the left. Most drew the original supply and demand curve and original equilibrium to gain the first two marks. Where they shifted supply they could access the mark for the correct shift and the new equilibrium if identified correctly. Many students though pivoted the supply curve illustrating an ad valorem tax and this received no further credit.

Q8 gave information on the annual percentage changes in house prices in Australia between 2020 and 2022. Learners needed to give reasons there might have been a housing market bubble in Australia in 2021. The knowledge mark was for defining a housing market bubble. Pleasingly many made reference to the price rising rapidly, the value being above its intrinsic value and the idea that

the price can burst causing prices to drop. The application mark was for identifying a price showing the rapid price rise or fall in price from the table. The majority identified that this was likely to be caused by speculators to pick up the first analysis mark. Fewer were able to develop this by explaining they did this to generate a profit or in the expectation of prices increases.

Q9 asked students to explain the difference between the rationing and incentive function. Learners struggled with this question and many could not define both. Many also struggled to link the information in the stem to the function of the price mechanism. It was surprising the number that confused rationality and rationing, with many defining incorrectly that it involved the maximising of utility. Where they accessed marks they tended to focus on the increasing price of an item creating an incentive for firms to increase supply to generate more profit. Rationing function when understood they focused on the how as the price increased for an item it would result in the rationing of the good to those most able to afford. Most linked the increase in the price of cotton t-shirts from \$1.50 to \$2 to creating an incentive for firms to supply more to gain more profit. Or they linked this to how the higher price would ration the item to those firms who can most afford to buy the cotton. The rising fertiliser costs causing firms to switch from bread production to animal feed was often linked to the incentive to switch production to increase profits.

Q10 required students to use data on the number of bus journeys and the average weekly income to calculate the income elasticity of demand. Most wrote the formula accurately and then calculated the intermediate steps of the percentage change in quantity demanded and percentage change in income. It was pleasingly that most accurately calculated the YED and few mistakenly added a percentage sign after the answer. There was still a number getting the formula the wrong way round.

Q11 The final question in Section B looked at the decreased number of visitors to Czechia. Most correctly drew the demand curve shifting to the left. Most correctly identified the original and new areas for producer surplus. It was surprising the number who continue to not offer a definition for this question. It needed an accurate definition of producer surplus.

Section C, the Data Response section.

Section C focused on the materials in the source booklet that related to sources on the cocoa market.

Q12a required a definition of a 'forwards market'. Many made reference to the agreeing a future trade where the price is agreed in advance. Other made reference to the fact the forwards market price in six months time almost doubled between April 2023 and April 2024.

Q12b required an analysis of one supply factor and one demand factor that caused the price of cocoa to increase by approximately 68% between November 2022 and November 2023. Many included a statement about prices increasing 68% but this was not rewarded as this was in the question. Those that explicitly used data on the precise price changes could gain credit but the data needed to relate to the price in November 2022 and November 2023. Students often identified a number of demand or supply factors but only one of each was awarded. For supply factors many identified that Côte d'Ivoire had a 36.3% decrease in production or swollen shoot disease on cocoa farms or flooding. For the demand factor most linked to the evidence about health benefits and the that more cocoa was required by chocolate and drinking chocolate makers. 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 on the same diagram. Where only one curve was shifted the final equilibrium mark was not awarded.

Q12c required an explanation of the term price inelastic supply. Most could define price inelastic supply with many referring the value of PES being between 0 and 1. Most then used the data in Figure 2 to identify the PES in the short-run and long-run. The final mark was for identifying that the PES was inelastic in the short- and long-run or that it became more elastic or less inelastic.

Q12d was an examine question and focused on two effects of the Government of Ghana's decision to end the subsidies paid to cocoa farmers. Unfortunately many misinterpreted the question and talked about the introduction of a subsidy rather than the removal. Where this happened they often were only able to pick up some application marks. Many that did look at the removal offered a diagram using it to show the impact on price and quantity. Many looked at how producer surplus and consumer surplus would be impacted as well as how government spending would be reduced. The final two marks were allocated to evaluation. Many considered the size of the subsidy reduction, the issues created for firms dependent on the subsidy and how it might encourage investment to increase productivity.

The final question in section C, Q12e required a discussion of the likely external costs associated with cocoa production. An externalities diagram was required. Whilst most could accurately define external costs and give examples of external costs from the Extract it was better candidates who were able to link the external costs to how third parties were affected. The extract talked about pesticide use and how it causes cancer so this was application the linking to health service spending was the analysis. Similarly the 70% loss of rainforests needed them to

link to increased carbon in atmosphere and global warming and then to how this might cause flooding and wildfires that may destroy homes. Evaluation tended to focus on possible external benefits, the difficulty in measuring and the significance of so much forest being lost.

Section D had a choice of two essays. Q13 was evaluating possible benefits of a tradeable pollution permit scheme and Q14 was evaluating the microeconomic benefits of increased education spending.

Q13's stem identified that the Government of South Korea introduced a tradeable pollution permit scheme affecting 70% of all businesses and includes those in the power generation, manufacturing and domestic aviation. Many could not effectively define the tradeable pollution permit scheme. Weaker candidates identified that the permit scheme gives each firm an allowance of how much they can pollute. Better candidates appreciated that these could be traded between firms. When considering the benefits many talked about how cleaner businesses could sell permits to earn revenue. Others looked at how dirtier businesses will face increased costs having to buy permits and how this would create an incentive to cut the number of permits they need in order to minimise costs. Many also said how the price of the permits would signal to the government if they had too many or too few permits released enabling them to adjust the number over time. Evaluation focused on the fact it only affected 70% of businesses or that government failure may occur due to information gaps, excessive administrative costs and unintended consequences.

Q14 has a stem which referred to the increased spending on education in developed and developing countries. Many used this data explicitly with many using the amounts in evaluation to explain how significant these changes were. Many responses referred to external benefits and the possible benefits to production possibilities as well as reducing information gaps. Evaluation often focused on government failure, information gaps, unintended consequences, opportunity costs and the time it takes to have an impact.

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 most students able to access marks on most questions.

Q7 required the drawing of a diagram to illustrate the impact imposing an indirect tax on aviation fuel for use in private jets. The tax was set at a rate of €0.65 per litre. Many did not pick up that this means that this was a specific tax. It was common to see an ad valorem diagram drawn which was incorrect. Only where there was a parallel shift of the supply curve could the final two marks be awarded. The first two marks were for the original supply, demand and the correct axis as well as the original equilibrium. Remember that all marks are allocated to the diagram on draw questions, so there is no reward for offering extended prose to support the answer.

Q8 required an explanation of the reasons why there might have been a housing market bubble in Australia. Most could access the knowledge mark making reference to the price rising rapidly or being above the true or intrinsic value. Many focused however on the rapid reductions in price after the correction which was also accepted. Most also used the data explicitly to gain the application mark. It was not enough to say it went up a lot, the numbers needed to be used. There were two analysis marks available with most focusing on the role of speculators. The second mark was for explaining why they speculate and those that achieved this mark often made reference to them seeking profit by buying cheap and selling at a higher price.

Q9 saw many struggle. It seemed for many they can identify the function of the price mechanism but many do not really understand them very well. Many mistook rationing to be rationality so many talked about maximising utility or profit and gained no credit. It was surprisingly rare for them to get the idea that the higher price rations the good to those most able to pay. The incentive function was better understood with many getting the idea that higher prices create an incentive to produce more to seek higher profits. The application marks were also difficult for many to access. Some copied the stem without explaining which function each related to and why. For example, the change in price of cotton from \$1.50 to \$2 needed linking to incentive function as more profit can be generated from selling cotton. Or the price rise could ration the good to those most able to afford. Candidates needed to refer to both examples so also needed to refer to fertiliser costs rising creating an incentive to make more profit by substituting to growing wheat for animal feed.

Q10 required students to calculate the income elasticity of demand. Still a number write the wrong formula for example PED was commonly written down. Or the formula is written the wrong way round. It was common in previous series to see the calculation written down without solving each stage. That is not writing what the % change in quantity demanded and % change in income were. Thankfully this was far less commonly seen in their series. It was also pleasing that very few added a percentage to the YED amount. When they did they could gain a maximum of three marks

Q11 saw students draw a supply and demand diagram and then showed the impact of reduced visitor numbers to Czechia. A surprising number reduced supply but the majority did not correctly shift demand to the left. Producer surplus was typically correctly identified. Noting that if supply was incorrectly shifted then the original producer surplus area can be awarded. The new producer surplus with lower demand was the final analysis mark. It should be noted that saying that producer surplus decreased could gain a mark. The most commonly missed mark was the knowledge mark with many not bothering to define producer surplus.

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

Q12a asked students to define a 'forward market'. The first aspect of the definition required was for that it was prices in advance or at a future date. The second mark was awarded for that the buyer and seller agree the price before or that it was typically used for foreign exchange or commodities. As in previous series reference to the Extract could gain up to one mark. So many made reference to the forward price for cocoa doubling in 6 months to gain a mark.

Q12b Most started by drawing the diagram. It is important to show the original supply, demand and equilibrium. This accessed the first mark. Most could identify supply had fallen and shifted it to the left. Most could also appreciate that demand is increasing and shifted demand to the right. There was a mark awarded for the final equilibrium. Intermediate equilibria are not needed. The diagram could gain up to four marks. Where learners drew the supply and demand shifts on separate diagrams they could gain up to 3 marks maximum for the diagrams. The written explanation is where the two analysis marks are awarded. This essentially needs students to pick out the factors from the Extract. Only one mark was awarded for demand factors and one mark for supply factors so there was need to give two of each. For demand reasons many identified the evidence that cocoa was healthy as the drinking chocolate and chocolate manufacturers using more cocoa. The supply factor focused on the reduction in production in Cote d'Ivoire, flooding and swollen shot disease.

Q12c saw most able to access the Knowledge marks. Most defined or included the formula for price inelastic supply. It was most common to include the values, that is price inelastic supply is between 0 and 1. Learners needed to use the data from the Figure 2 explicitly. Most talked about over time the price elasticity of demand becomes less inelastic or more elastic to gain the final mark.

Q12d awarded two marks for each of Knowledge, Analysis, Application and Evaluation. The two effects of the ending of the subsidy were awarded one mark each. Where this was developed the analysis mark was awarded. Learners needed to explicitly make reference to information from the extract with most identifying the size of the subsidy that was ended or why the subsidy was offered to help with the income of farmers and to fund the purchase of fertiliser. Evaluation was required with most focusing on the size of the subsidy that was ending, the dependency of the farmers making it more difficult to cope. The most common issue was not to fully read the question and to talk about the introduction or

increase of a subsidy which mean many failed to gain knowledge and analysis marks.

Q12e needed a discussion of the likely external costs associated with cocoa production. The Extract identified three 70% loss of rainforest, pesticides leading to cancer and children being employed in the cocoa industry. Many learners talked about all three and subsequently struggled to finish the paper. It is OK to pick out two of these and analyse them in more detail than to try and tackle all three. The key with the external costs is to link them to the impact on the third parties. That is how does each impact human populations. Th diagram needed to be an external costs of production diagram and better responses clearly identified the welfare loss area. Evaluation was required and the best responses linked to the evaluation point to context. For example they considered the significance or magnitude but used the data linked to 70% reduction in forests. The external benefits that offset the costs would be linked to employment in the cocoa sector.

Section D, the essay section offered students the opportunity to choose between two questions.

The first essay Q13 required an evaluation of the benefits of introducing a tradable pollution permit scheme. Weaker responses talked about the limit to the amount of pollution that can be created and better responses linked to how these could be traded between firms. Better responses looked at how the profit incentive helps encourage firms to reduce their pollution levls as they can sell permits. They often linked to how heavily polluting firms have an incentive to reduce pollution levels to reduce the costs of buying the permits. There were impressive answers looking at how the government can monitor the price of the permits to decide how many to issue. Evaluation often focused on government failure such as unintended consequences, knowing how many to issue and administrative costs. Others often focussed on the fact that it did not affect all industries.

For Q14 the essay on the benefits of education saw many focus on the increased productive potential. Many looked at how is resolves information failure and how it enables additional external benefits to be realised. Evaluation was often strong with many referring to the opportunity costs, the size of the changes in spending from the stem and the long time frame before any benefits are realised.

Paper Summary

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

Section A: Multiple Choice Questions

- With questions on the free market economy the governments involvement is minimal so examples of government failure are not disadvantages.
- The opportunity cost questions needs learners to consider what the gain is and then to find the opportunity costs it is what is given up or forgone.

Section B: Short Answer Questions

- For Q7 When asked to draw an indirect tax diagram it is important to note whether it is a percentage rate and an ad valorem tax or a set amount and therefore a specific tax.
- In Q9, there was a relatively superficial understanding of rationing and incentives- ensure when teaching this section that understand what each is not just be able to identify each.
- On Q11, many failed to define producer surplus for the knowledge mark.

Section C: Data Response

- On Q12(c) many did not explicitly use the numbers from the tables and should be encouraged to do so.
- On Q12(d) make sure the question is read carefully. Many answered the wrong question by looking at the introduction of a subsidy rather than it ending as required in the question.

Section D: Essay

- Both questions asked for benefits so these will only be marked as Knowledge, application and analysis and evaluation would be different viewpoint which could be disadvantages or the likely success of the scheme.

