



Mark Scheme (Provisional)

Summer 2021

Pearson Edexcel International

Advanced Subsidiary

In Economics (WEC11)

Unit 1: Markets in action

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Summer 2021

Question Paper Log Number P65834A

Publications Code WEC11\_01\_2106\_MS

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

## Section A

Question Number	Quantitative skills assessed	Answer	Mark
1	-	<p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because statement 2 is normative and not positive</p> <p><b>C</b> is not correct because statement 1 is positive and not normative</p> <p><b>D</b> is not correct as statement 1 is positive and statement 2 is normative</p>	(1)
2	-	<p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because if consumers were good at computation they would calculate that they could save 20% and switch</p> <p><b>B</b> is not correct because if people aimed to maximise utility they would switch as the money they have could be spent on other goods</p> <p><b>D</b> is not correct because if consumers felt undervalued by their current provider they would be more likely to look for a provider that does value them</p>	(1)
3	-	<p><b>The only correct answer is A</b></p> <p><b>B</b> is not correct because this is a function of the price mechanism</p> <p><b>C</b> is not correct because this is government failure</p> <p><b>D</b> is not correct because this is the government correcting the market failure</p>	(1)

4	<p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is D</b></p> <p><b>A</b> is not correct because the social optimum quantity is <math>Q_2</math> and price is <math>P_2</math></p> <p><b>B</b> is not correct because the market equilibrium quantity is <math>Q_1</math> and price is <math>P_1</math></p> <p><b>C</b> is not correct because RST is the area of welfare loss</p>	(1)
5	<p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms</p>	<p><b>The only correct answer is C</b></p> <p><b>A</b> is not correct because this position shows unemployed resources</p> <p><b>B</b> is not correct because at B there are fewer capital goods consumed than at C so growth will be slower</p> <p><b>D</b> is not correct because this point is unattainable using current resources</p>	(1)
6	<p><b>QS8:</b> Make calculations of elasticity and interpret the result</p>	<p><b>The only correct answer is B</b></p> <p><b>A</b> is not correct because a decrease in real income will result in a less than proportionate decrease in demand for butter</p> <p><b>C</b> is not correct because a decrease in real income will result in a less than proportionate increase in the demand for margarine</p> <p><b>D</b> is not correct because the data is about income elasticity and not price elasticity of demand.</p>	(1)

**Section B**

Question Number	<p>In October 2017 the United Arab Emirates (UAE) introduced an indirect tax on energy drinks. The tax is charged at 50% of the price of energy drinks.</p> <p>Draw a diagram to illustrate the impact of the introduction of the indirect tax on the equilibrium price and quantity of energy drinks in UAE.</p> <p>Answer</p>	Mark
7	<p><b>Knowledge 1, Application 3</b></p> <p>Quantitative skills assessed:</p> <p><b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <ul style="list-style-type: none"> <li>• Original supply and demand diagram with correct original equilibrium <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 3 marks for the following information included on diagram:</p> <ul style="list-style-type: none"> <li>• Shifting supply to the left <b>(1)</b></li> <li>• Including the new equilibrium quantity and price <b>(1)</b></li> <li>• <b>And for pivoting the supply curve (1)</b></li> </ul>	<b>(4)</b>

Question Number	With reference to the change in how electricity was generated, explain the difference between 'renewable resources' and 'non-renewable resources'.  Answer	Mark
8	<p><b>Knowledge 2, Application 2</b></p> <p><b>Knowledge</b> 2 marks for defining 'renewable resources' and 'non-renewable resources'</p> <ul style="list-style-type: none"> <li>• Renewable resources are resources that can be used again and again/used repeatedly/resources that do not diminish/do not deplete/replenished naturally in short time <b>(1)</b></li> <li>• Non-renewable resources are resources that deplete with use/resources that do diminish/used up quicker than it can be replenished/supply is finite <b>(1)</b></li> </ul> <p><b>Application</b> 2 marks for applying to the data in the table e.g.:</p> <ul style="list-style-type: none"> <li>• Hydro/wind/solar are renewable <b>(1)</b></li> <li>• Coal/gas are non-renewable <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number	<p>Adam Smith wrote that by applying the division of labour in a pin factory, ten workers were able to increase production from 200 pins per day to 48 000 pins per day.</p> <p>Explain <b>one</b> advantage to firms of using the division of labour to organise production.</p> <p>Answer</p>	Mark
9	<p><b>Knowledge 1, Application 1, Analysis 2</b></p> <p><b>QS1:</b> Calculate, use and understand ratios and fractions.  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <p>1 mark for identifying an advantage of the division of labour, e.g.:</p> <ul style="list-style-type: none"> <li>• Increased output per worker/increased productivity/lower training costs/reduce costs per unit/machinery can replace workers <b>(1)</b></li> </ul> <p>OR</p> <p>1 mark for definition of division of labour, e.g.</p> <ul style="list-style-type: none"> <li>• Where production is broken down into tasks and each worker focuses on one task</li> </ul> <p><b>Application</b></p> <p>1 mark for applying to the stem/Adam Smith/ pin factory or production, e.g.:</p> <ul style="list-style-type: none"> <li>• Output per worker has increased from 20 to 4 800/workers will only be trained in one element of putting together the pins <b>(1)</b></li> </ul> <p><b>Analysis</b></p> <p>Up to 2 marks for linked expansion of the advantage e.g.:</p> <ul style="list-style-type: none"> <li>• The workers will focus on one task <b>(1)</b> and will become experts at that task <b>(1)</b></li> <li>• The workers will not need to keep changing tools <b>(1)</b> enabling them to save time <b>(1)</b></li> <li>• Workers will only need to be trained in how to do one task <b>(1)</b> rather than having to know how to complete every stage of production <b>(1)</b></li> <li>• With the same number of workers being able to produce more output <b>(1)</b> the costs of making each item will be lower <b>(1)</b></li> <li>• The tasks become simpler <b>(1)</b> and can often be automated <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number	<p>In 2019 Netflix increased the price of its basic subscription streaming service from \$7.99 to \$8.99 in the USA. It was estimated that there would be an 8% decrease in the number of consumers with Netflix subscriptions.</p> <p><i>Ceteris paribus</i>, calculate the price elasticity of demand for the basic subscription for Netflix. Show your workings.</p> <p>Answer</p>	Mark
10	<p><b>Knowledge 1, Application 3</b> Quantitative skills assessed: <b>QS8:</b> Make calculations of elasticity and interpret the result.</p> <p><b>Knowledge</b></p> <ul style="list-style-type: none"> <li>1 mark for the formula for price elasticity of demand: <math>\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}</math></li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>1 mark for identifying that the good has relatively price inelastic demand/ The PED is inelastic as a rise in price sees quantity demanded change by a smaller percentage <b>(1)</b></li> </ul> <p><b>Application</b> Up to 3 marks for calculations:</p> <ul style="list-style-type: none"> <li>Change in price ÷ original price <math>1 \div 7.99 \times 100 = 12.52\%</math> <b>(1)</b></li> <li>% Change in quantity ÷ % change in price <math>-8\% \div 12.52\%</math> <b>(1) = -0.6/-0.64/-0.639 (1)</b></li> </ul> <p><b>NB: if correct answer (-0.6/-0.64/-0.639) is given, award full marks regardless of working.</b> <b>NB: (0.6/0.64/0.639) would be awarded 3 marks.</b></p>	(4)

Question Number	<p>Between August 2018 and August 2019 the world price of sweet potatoes increased from \$12 to \$22.50 per box. This was caused by Hurricane Florence and heavy rains in the USA, the world's largest supplier.</p> <p>Explain the likely impact of this change in price on consumer surplus in the market for sweet potatoes. Illustrate your answer with a diagram.</p> <p>Answer</p>	Mark
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11	<p><b>Knowledge 1, Application 1, Analysis 2</b></p> <p>Quantitative skills assessed:  <b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>Knowledge</b></p> <p>1 mark for defining consumer surplus</p> <ul style="list-style-type: none"> <li>• Consumer surplus is the difference between the price which consumers are willing to pay and the market price <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>1 mark for the following diagram, showing the correct shift in supply</p> <p>The diagram is a supply and demand graph. The vertical axis is labeled 'Price of sweet potato, per box' and has points U, P<sub>1</sub>, P<sub>e</sub>, and O. The horizontal axis is labeled 'Quantity of sweet potato, boxes' and has points Q<sub>1</sub>, Q<sub>e</sub>, and O. A downward-sloping demand curve D starts at U and intersects the horizontal axis. Two upward-sloping supply curves, S and S<sub>1</sub>, start from the vertical axis. S<sub>1</sub> is to the left of S, indicating a decrease in supply. The initial equilibrium point W is at the intersection of S and D, with price P<sub>e</sub> and quantity Q<sub>e</sub>. The new equilibrium point V is at the intersection of S<sub>1</sub> and D, with price P<sub>1</sub> and quantity Q<sub>1</sub>. Dashed lines connect these points to their respective values on the axes.</p>	
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**Analysis**

Up to 2 marks for likely impact on consumer surplus

- Original consumer surplus is  $P_eUW$  **(1)**
- New consumer surplus is  $P_1UV$  **(1)**

**Or**

- Consumer surplus decreases by  $P_eP_1VW$  **(1+1)**

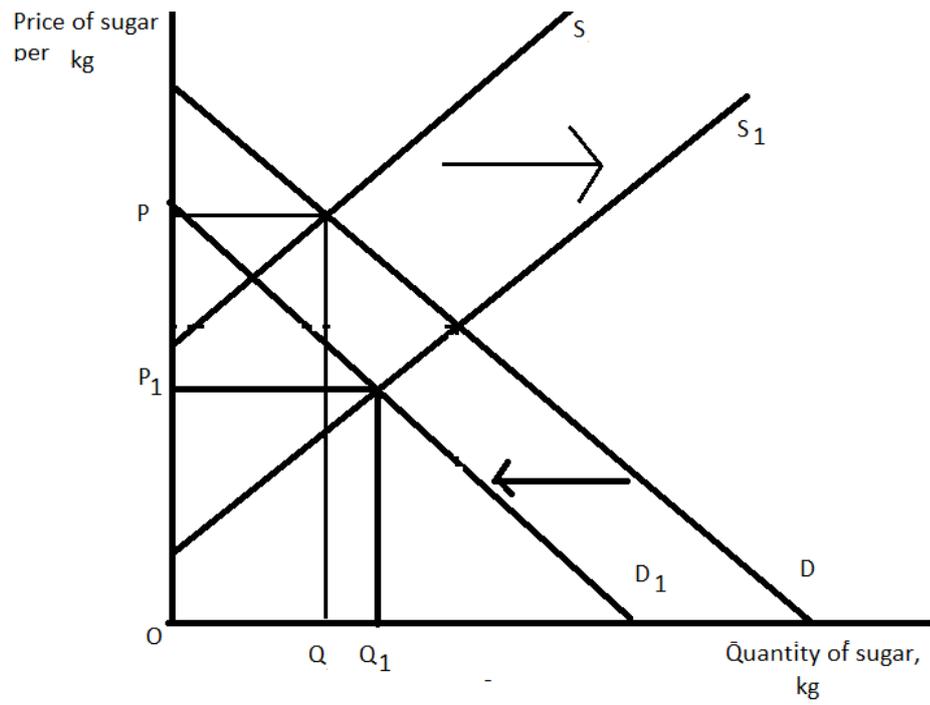
**(4)**

### Section C

Question Number	Define the term 'substitutes' (Extract A, line 9). Answer	Mark
<b>12(a)</b>	<b>Knowledge 2</b> Up to 2 marks for defining a 'substitute', e.g.: <ul style="list-style-type: none"><li>• Two goods that serve the same need <b>(1)</b></li><li>• Consumers can switch between the two goods and receive similar benefits <b>(1)</b></li><li>• A good which has a positive cross elasticity of demand/XED above zero <b>(1)</b></li><li>• Where the price of one product increases and it leads to an increase in quantity demanded of the other product <b>(1)</b></li><li>• Example from Extract A: sugar and artificial sweeteners <b>(1)</b></li><li>• Where the price of sugar increases and it leads to an increase in quantity demanded of artificial sweeteners <b>(1+1)</b></li></ul>	<b>(2)</b>

Question Number	With reference to Extract A, explain <b>one</b> factor that is likely to influence the price elasticity of supply for sugar.  Answer	Mark
12(b)	<p><b>Knowledge 2 Application 2</b></p> <p><b>Knowledge</b></p> <p>1 mark for definition or formula of PES:  <math display="block">\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}</math> <b>Or</b> definition of price elastic or inelastic supply <b>(1)</b></p> <p>1 mark for identification of one factor:</p> <ul style="list-style-type: none"> <li>• Storage capacity</li> <li>• Time it takes sugar crops to reach maturity</li> <li>• Number of producing countries</li> <li>• Ease of switching production</li> <li>• Ability to store good <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for application:</p> <ul style="list-style-type: none"> <li>• Excess supply is 17 million tonnes <b>(1)</b> so there will be stocks of sugar making supply more elastic <b>(1)</b></li> <li>• Large quantities being held in storage <b>(1)</b> which can be released quickly making supply more elastic <b>(1)</b></li> <li>• 119 countries grow sugar <b>(1)</b> suggesting supply can be increased in response to a change in price, so supply is relatively elastic <b>(1)</b></li> <li>• It takes one year in warm countries to grow sugar <b>(1)</b> suggesting supply is relatively elastic <b>(1)</b></li> <li>• It takes two years in cooler countries to grow sugar <b>(1)</b> suggesting supply is relatively inelastic <b>(1)</b></li> </ul>	<b>(4)</b>

Question Number	With reference to Figure 1 and Extract A, analyse <b>two</b> reasons why the world price of sugar fell between August 2017 and August 2018.  Illustrate your answer with a supply and demand diagram.  Answer	Mark
12(c)	<p><b>Knowledge 2, Application 2, Analysis 2</b></p> <p>Quantitative skills assessed:  <b>QS4:</b> Construct and interpret a range of standard graphical forms  <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Knowledge</b></p> <p>Up to 2 marks for the diagram showing:</p> <ul style="list-style-type: none"> <li>• Original supply, demand and equilibrium <b>(1)</b></li> <li>• Final equilibrium showing lower price <b>(1)</b></li> </ul> <p><b>Analysis</b></p> <p>Up to 2 marks for any two reasons below:</p> <p>Supply factors</p> <ul style="list-style-type: none"> <li>• Favourable weather</li> <li>• Good harvests</li> <li>• Indian Government subsidising sugar production</li> <li>• India/Thailand had record levels of production/helping to increase global production to 11% higher than in 2017</li> </ul> <p>Demand factors</p> <ul style="list-style-type: none"> <li>• Consumption of sugar has fallen because of increasing health concerns</li> <li>• Competition from substitutes such as artificial sweeteners</li> <li>• In the USA/Europe/China/Australia sugar consumption has fallen</li> </ul> <p><b>NB accept two demand or two supply factors or one of each</b></p> <p><b>Application</b></p> <p>1 mark for reference to Figure 1</p> <ul style="list-style-type: none"> <li>• Price decreased by \$0.08/25% <b>(1)</b></li> </ul> <p>Up to 2 marks for diagram:</p> <ul style="list-style-type: none"> <li>• Rightwards shift in supply <b>(1)</b></li> <li>• Leftwards shift in demand <b>(1)</b></li> </ul>	



(6)

Question Number	With reference to Extract B, examine <b>two</b> possible effects of information gaps on the consumption of sugar.  Answer	Mark
12(d)	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <p><b>Knowledge and Analysis</b></p> <p>1 mark for knowledge of information gap, e.g.:</p> <ul style="list-style-type: none"> <li>• Definition of information gaps: where an economic agent lacks information</li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>• Definition of asymmetric information: where one economic agent holds more information than another economic agent <b>(1K)</b></li> </ul> <p>Up to 2 marks for identifying two effects (2) and 1 mark for linked expansion of each effect of information gaps (2), e.g.:</p> <ul style="list-style-type: none"> <li>• People being unaware of the recommended amount of sugar <b>(1K)</b> means they consume amounts in excess of the recommendation <b>(1AN)</b></li> <li>• Consumers being unaware of the risks associated with excess sugar <b>(1K)</b> will put themselves at greater risk of depression/cancer <b>(1AN)</b></li> <li>• Producers may know more about the impact of sugar consumption than consumers <b>(1K)</b> and may not make the public aware of this in order to avoid losing consumers <b>(1AN)</b></li> <li>• The overconsumption will put additional pressure on health services <b>(1K)</b> who have to treat more cases of cancer, depression and obesity <b>(1AN)</b></li> <li>• Manufacturers may continue to add sugar to recipes <b>(1K)</b> knowing many consumers do not know their damaging impact <b>(1AN)</b></li> </ul> <p><b>Application</b></p> <p>Up to 2 marks for reference to the given sources, e.g.:</p> <ul style="list-style-type: none"> <li>• There is overconsumption of sugar <b>(1)</b> 73 grams per day against a recommendation of 50 grams per day <b>(1)</b></li> <li>• Consumers may be unaware of how sugar consumption contributes to obesity <b>(1)</b> as how the body processes excess sugar to fat <b>(1)</b></li> <li>• People are unaware of the risks associated with a high sugar diet <b>(1)</b></li> </ul>	<b>(8)</b>

**Evaluation**

Up to 2 marks for evaluative comments, (2+0, 1+1) e.g.:

- There are different sugars and some may be better for you than others **(1)** and consumption of these may not be so damaging **(1)**
- The issue of information gaps may reduce over time **(1)** With the internet closing the information gap **(1)**
- Magnitude: the extent to which people are unaware of the damage caused by sugar consumption **(1)** may be significant/insignificant for different groups **(1)**
- Difficult to measure the size of the gap **(1)** as people may know the risks but be willing to take a chance **(1)**
- Extra sugar consumption may have a time delay **(1)** before impact is felt **(1)**
- Sugar is addictive **(1)** so consumers may be unable to stop consuming it **(1)**

Question Number	With reference to Extract C, discuss the likely effects of the increase in the subsidy for sugar production.  Illustrate your answer with an appropriate diagram.  Indicative content
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**12(e)**

**Indicative content guidance**

Answers must be credited by using the level descriptors (below) in line with the general marking guidance.

The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.

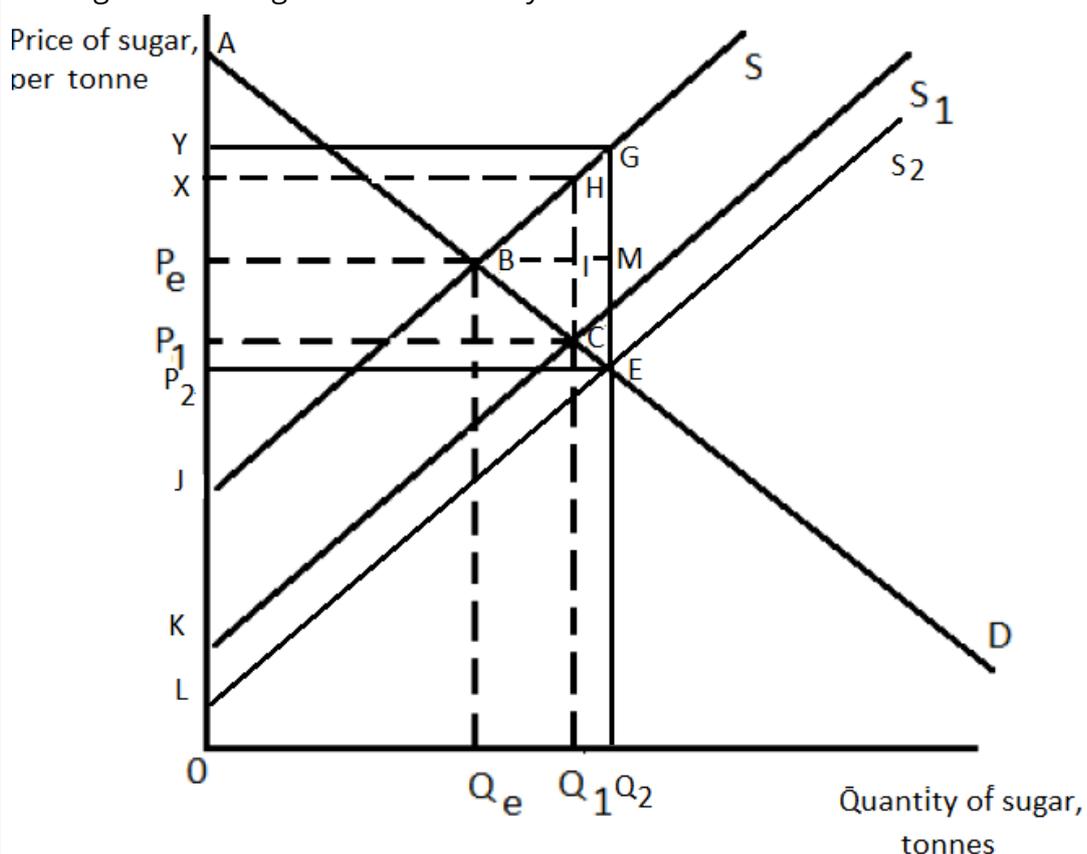
**Quantitative skills assessed**

**QS4:** Construct and interpret a range of standard graphical forms

**QS9:** Interpret, apply and analyse information in written, graphical, tabular and numerical forms.

**Knowledge, Application and Analysis (8 marks) – indicative content**

- Definition of 'subsidy' – cash grants/payments by a government to suppliers, reduce the costs for suppliers encouraging them to increase supply
- Increased subsidy from 55 rupees a tonne to 138 rupees a tonne
- Diagram showing increased subsidy



	<ul style="list-style-type: none"> <li>• There is an extension of demand as supply increases</li> <li>• Quantity produced/consumed rises from <math>Q_1</math> to <math>Q_2</math></li> <li>• Exports per year grew from 620 000 to 3.3 million tonnes when previous subsidy was introduced</li> <li>• Increasing the subsidy is likely to see further growth in exports- estimate is to 7 million tonnes</li> <li>• Production increases from 20.3 million tonnes to 33 million tonnes.</li> <li>• Increasing exports may improve the balance of trade/current account of balance of payments/injection into the Indian economy</li> <li>• Price decreases from <math>P_1</math> to <math>P_2</math></li> <li>• Consumer surplus increases from <math>ACP_1</math> to <math>AEP_2</math></li> <li>• Producer surplus increases from <math>CKP_1</math> to <math>ELP_2</math></li> <li>• Government spending increases from <math>P_1XHC</math> to <math>P_2EGY</math></li> <li>• Producer subsidy increases from <math>P_eXHI</math> to <math>P_eYGM</math></li> <li>• Consumer subsidy increases from <math>P_eICP_1</math> to <math>P_eMEP_2</math></li> <li>• WTO might intervene</li> <li>• Market may become unprofitable for farmers outside of India- e.g. in Brazil and Australia</li> <li>• The subsidy is likely to increase consumption which may have implications for health in terms of obesity and cancers. These external costs will impose costs on those not associated with sugar consumption- for e.g. healthcare costs for the Government</li> <li>• Impact on businesses using sugar as an ingredient- e.g. biscuits, chocolates, sweet manufacturers</li> </ul> <p><b>NB Diagram may refer to businesses using sugar as an ingredient</b>  <b>NB If no diagram maximum of Level 3</b></p>	
Level	Mark	Descriptor
	0	No rewardable material
<b>Level 1</b>	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
<b>Level 2</b>	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.

<b>Level 3</b>	7-8	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>
<p><b>Evaluation (6 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Magnitude of change in subsidy 55 to 138 rupees is a large increase/151% increase</li> <li>• Magnitude of subsidy- 138 rupees is still not a significant amount of money per tonne</li> <li>• Measurement – it is hard to measure the level of subsidy that should be paid</li> <li>• Over-production may cause waste</li> <li>• Third parties may benefit from the subsidy- suppliers to sugar growers</li> <li>• Elasticity of demand and supply may affect the size of the producer and consumer subsidy</li> <li>• Dependency culture- the growers may become dependent on the subsidy and its withdrawal would cause significant problems</li> <li>• Retaliation from other countries in terms of subsidising supply</li> <li>• May not be the only country subsidising growers- EU, Japan and USA have heavily protected agricultural growers</li> <li>• Opportunity costs of funds that could be better used in providing education/ healthcare/poverty reduction</li> <li>• Impact may be significant because India is the world’s second largest sugar producer</li> </ul>		
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1-2	<p>Identification of generic evaluative comments.</p> <p>No supporting evidence/reference to context.</p> <p>No evidence of a logical chain of reasoning.</p>
<b>Level 2</b>	3-4	<p>Evidence of evaluation of alternative approaches.</p> <p>Some supporting evidence/reference to context.</p> <p>Evaluation is supported by a partially-developed chain of reasoning.</p>
<b>Level 3</b>	5-6	<p>Evaluation recognises different viewpoints and/or is critical of the evidence.</p> <p>Appropriate reference to evidence/context.</p> <p>Evaluation is supported by a logical chain of reasoning.</p>

## Section D

Question Number	<p>In 2019, the price of a litre of diesel was 65% higher in Thailand than in Malaysia. The price difference was because of higher taxation on diesel in Thailand. This led to illegal smuggling. For example, on one night, Thai authorities seized 300 000 litres of diesel that was illegally imported from Malaysia.</p> <p>Evaluate possible causes of government failure in a market of your choice.</p> <p>Indicative content</p>
13	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Knowledge, application and analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"><li>• Government failure- where government intervention leads to a net welfare loss</li></ul> <p>Possible causes of government failure include:</p> <ul style="list-style-type: none"><li>• Information gaps- where the government lacks perfect information and sets the wrong level of regulation/taxation/subsidy</li><li>• Lack of incentives- where the policy fails to create the incentives for firms and consumers to change their behaviour appropriately</li><li>• Unintended consequences- where a policy leads to an outcome that was not anticipated, this could include smuggling</li><li>• Excessive administrative costs- where the costs of administering the regulation or tax are greater than any benefit of the government intervention</li><li>• Moral hazard- where the costs of an action are likely to be experienced by someone else causing riskier actions</li></ul> <p>Possible responses linked to the stem</p> <ul style="list-style-type: none"><li>• The 65% higher price in Thailand gives those in Thailand the incentive to travel to Malaysia to buy cheaper diesel</li><li>• Even taking in to account the costs associated with travelling the significant difference in price means this activity can be profitable</li><li>• The returns may be so large that smugglers are willing to take the risk of being caught</li><li>• 300 000 litres in one night suggests that the smuggling is commonplace</li><li>• Diesel will have the same properties in both countries so the appearance and smell will be identical making it difficult to discover its origins</li><li>• This makes it easier to smuggle undetected</li></ul>

		<ul style="list-style-type: none"> <li>• If the value of smuggling is greater than the tax revenue earned then this is an example of government failure</li> <li>• Smuggled diesel results in a loss of tax revenue to the Government</li> <li>• If the smuggling funds organised crime then this could be a further unintended consequence</li> </ul> <p><b>NB Maximum Level 3 if candidate does not refer to at least two causes of government failure related to a market of their choice</b></p>
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1-3	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>
<b>Level 2</b>	4-6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>
<b>Level 3</b>	7-9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>
<b>Level 4</b>	10-12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>

<p><b>Evaluation (8 marks) – indicative content</b></p> <p>Evaluation should be rewarded when linked to the relevant cause of government failure</p> <ul style="list-style-type: none"> <li>• Information gaps</li> <li>• Lack of incentives</li> <li>• Excessive administrative costs</li> <li>• Moral hazard</li> </ul> <p>Evaluation linked to stem</p> <ul style="list-style-type: none"> <li>• Measurement problem- difficult to value the level of smuggling as it goes unrecorded</li> <li>• Magnitude- sizeable tax so likely to have a large impact on generating smuggling</li> <li>• Depends on efforts to detect</li> <li>• Depends on punishment as to whether it continues</li> <li>• Possible rewards of smuggling may far exceed any penalties</li> <li>• Time- the current efforts to detect smuggling may in time reduce the unintended consequence</li> <li>• Malaysian sellers of diesel will earn more revenue and the Malaysian Government more tax revenue</li> </ul>		
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

Question Number	<p>Between 2000 and 2019 in China the average price of a house increased from 4 000 yuan per square metre (m<sup>2</sup>) to 60 000 yuan per m<sup>2</sup>. The ratio of average house prices to average incomes increased from 5.6 to 7.6, showing that houses were becoming less affordable.</p> <p>Evaluate the impact of market bubbles in the housing market.</p> <p>Indicative content</p>
14	<p><b>Indicative content guidance</b></p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p><b>Knowledge, application and analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Define market bubble- a sustained rise in the prices of financial assets such as housing and equities which takes values well above long-run sustainable levels /where the value increases above the true value/ prices can be driven by expectations of future price increases attracting new buyers to the market/rapid price rise will eventually be followed by a crash when prices fall significantly</li> <li>• In China the price per m<sup>2</sup> has increased from 4 000 yuan to 60 000 yuan between 2000 to 2019/ 400% increase in price over 20 years/ increased 56 000 yuan</li> <li>• House price to income ratio has increased from 5.6 to 7.6 showing that house price has gone from being 5.6x to 7.6x the person's income</li> <li>• Low/middle income families will find it increasingly difficult to purchase a house</li> <li>• High house prices will see banks lending more money helping them to generate more revenue and profits</li> <li>• The construction sector will benefit from increased demand to build more houses/property</li> <li>• If the bubble bursts the construction sector would suffer significantly with unemployment likely</li> <li>• Rising house prices in one area that are faster than another may make it harder to move between locations</li> <li>• When the bubble bursts the price will return to a value that reflects the fundamental value</li> <li>• The housing bubble will see house prices rise creating consumer confidence and increase consumption of other goods and services</li> <li>• Risk of housing market bubble bursting if interest rates rise, credit become less available or consumer confidence falls</li> </ul>

		<ul style="list-style-type: none"> <li>• If the bubble bursts then the falling price of houses will see falling consumer confidence and less consumption of other goods and services- knock on effects on construction industry/lenders</li> <li>• House price rises increase the wealth of house/property owners and those that do not own houses and instead rent will not see the same increases in wealth</li> </ul> <p><b>NB Must make reference to the housing market to achieve Level 4</b></p> <p><b>Must make a reference to bubbles bursting/corrections to achieve Level 4</b></p>
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1-3	<p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach, which has no chains of reasoning.</p>
<b>Level 2</b>	4-6	<p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>
<b>Level 3</b>	7-9	<p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.</p>
<b>Level 4</b>	10-12	<p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p>

	<b>Evaluation (8 marks) – indicative content</b>	
	<ul style="list-style-type: none"> <li>• Measurement problem – difficult to measure how much of the price change reflects the fundamental value of housing and how much links to speculative investment in housing</li> <li>• Magnitude – this is a significant rise in price of housing so likely to have a large impact</li> <li>• Time frame – whilst the price may continue to rise in the long run there is likely to be a correction if the price rises too far and the price may crash</li> <li>• It is likely that with rapid economic growth through the period 2000 and 2019 much of the growth will reflect the economy’s excellent performance</li> <li>• Depends on whether house ownership is significant or whether people rent instead</li> <li>• Affordability may not be an issue as wages will have also grown substantially</li> <li>• An economy will double in size in 10 years with economic growth of 7%, so likely that with high economic growth for much of this period the economy will be many times bigger and this might reflect a fundamental increase in the value of housing</li> <li>• The data does not make it clear whether this is a change in the nominal house price or real house price. If this is a nominal value then the price change is likely to have less significance</li> </ul>	
Level	Mark	Descriptor
	0	No rewardable material.
<b>Level 1</b>	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
<b>Level 2</b>	4–6	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
<b>Level 3</b>	7–8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.