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Mark scheme (Results)

Summer 2016

Pearson Edexcel GCE AS Level
in Economics A (8EC0)
Paper 01 Introduction to markets and market failure

PEARSON

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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.

Question Number	Answer	Mark
1(a)	C	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for definition of specialisation or definition of money acting as a medium of exchange or a measure of value or a store of value or a method of deferred payment. Specialisation requires exchange. **Application** 1 mark for application to a process, business or worker, e.g. Worker lives by exchanging earnings from making smartphones or receives training or is incentivised by money or smartphone company earns profit by trading in smartphones. **Analysis** 1 mark for linked development from money to improved specialisation, e.g. new technology enables further specialisation thus improving productivity or building up capital or increasing skills of workers.	**(3)**

Question Number	Answer	Mark

2(a)	**Knowledge 1**
	
	Knowledge/understanding
	1 mark for definition of external benefits e.g.
	   • Positive externality (1)
	   • When the social benefits of an economic action are greater than the private benefits (1)
	   • External benefits = social benefits – private benefits (1)
	   • Benefits accruing to a 3rd party (1)
	   • Spillover effects (1)
	   • Outside the price mechanism (1)
		(1)

Question Number	Answer	Mark
2(b)	B	**(1)**

Question Number	Answer	Mark
2 (c)	**Application 2** Identify welfare gain area VTR (1) Annotate or identify the social optimum output as Q_1 or R or S (1) 	**(2)**

Question Number	Answer	Mark
3 (a)	C	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 2** **Knowledge** One mark for identifying measure e.g. • tax on water or water consumers (1) OR • regulation (1) OR • subsidise water efficiency or substitute water provision to lake (1) OR • permits (1) **Application** 2 marks for linked application (1+1), e.g. • increased taxes/regulation would make it more expensive/less profitable (1) reducing consumption (1) • diagram e.g. showing supply shifting in (1) and quantity falling (1)	**(3)**

Question Number	Answer	Mark
4(a)	**Knowledge 1, Application 2** **Knowledge/understanding** 1 mark for definition of diminishing marginal utility e.g. as decline in the additional satisfaction a person derives from consuming an additional unit of that product. **Application** 2 marks for linked application (1+1), e.g. • this is the premise on **which** 'All you can eat buffet' operates as they know each additional plate of food (1) provides less utility than the one before (1) • most people will eat only until their marginal utility matches the price they paid (1) OR people eat until they are satiated (1) otherwise if you kept eating you would reach the point of being sick or dissatisfied (dis-utility). (1)	**(3)**

Question Number	Answer	Mark
4(b)	A	**(1)**

Question Number	Answer	Mark
5(a)	D	**(1)**

Question Number	Answer	Mark

5(b)	**Knowledge 1, Application 2**
	
	Knowledge
	1 mark for identifying that a price fall would result in a fall in total revenue OR definition of total revenue.
	
	Application
	 2 marks for linked application (1+1), e.g.
	   • the percentage rise in quantity demanded is lower than the percentage fall in price (1) as demand is price inelastic OR less than 1/-1(1)
	   • diagram showing inelastic demand (1) showing increased revenue is less than lost revenue (1) or numerical example of revenue changes (1+1).
		(3)

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2**	
	Knowledge/understanding 1 mark for e.g: • definition or formula or diagram of price elasticity of supply. Price elasticity of supply (PES) measures the responsiveness of quantity supplied to a change in price. PES can be calculated using the following formula: PES= percentage change in Quantity **Supplied (%Δ in Qs) / percentage change in Price (%Δ in P)**	
	Application Linked application focussed on new housing stock (1+1) e.g. • Price elasticity of supply of 1 means unitary elasticity; PES>1 means elastic; PES <1 means inelastic (1) • 1 mark for identifying Supply elasticities in the USA or Finland are at or above unity (1) and 1 mark for identifying a country with particularly low elasticities of supply e.g. the Netherlands or the UK (1). • Candidates who compare the elasticities of one country where supply is elastic and one country where supply is inelastic: e.g. USA +2.0 (1) and UK +0.4 (1). • Supply is particularly unresponsive to prices in the Netherlands, more than ten times less responsive than in the USA (1+1). • A numerical illustration of the effects of price changes in different countries (1+1)	
	Analysis Linked analysis (1+1) e.g. • Above unity PES implying that in response to a demand shock housing output will increase proportionally more than prices (1) and below unity where housing supply is relatively unresponsive (1). • Explaining how it is easier to build new houses in the US compared to the UK (1) where it is more difficult to build new houses e.g. due to planning restrictions in UK (1). • Allow other reasons/factors that affect PES e.g. land availability, technology or time(1+1).	**(5)**

Question Number	Indicative content	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** • Help to Buy is a subsidy making home ownership more attractive • Cross (price) elasticity of demand (XED) measures the responsiveness of quantity demanded for one good to a change in the price of another good. • Identify home ownership and rented properties as substitutes • Likely positive cross elasticity of demand – Help to Buy scheme may result in decrease demand in rental sector • Deposit size 5% rather than 20% - demand increases • Demand for rental properties decrease – diagram showing shift inwards • Price and quantity of rental properties to fall • Consumer and Producer surplus in rented sector declines • Alternative views valid e.g. Help to Buy may increase house prices and therefore increase demand for rented accommodation from those not eligible for Help to Buy. Help to Buy shifted demand for private houses to the right (increase) and that, ceteris paribus, this would shift demand for rented accommodation to the left (reduction).	**(6)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no links between causes and consequences
Level 2	3-4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relate them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5-6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(b) continued	**Evaluation 4** • Scale – "modest" uptake of the Help to Buy scheme • Time-scheme due to end in 2017 • Scope – more likely to affect "lower end" of property market. • Closeness of substitutes – home ownership is purchasing an asset renting is a cost of living. • Scheme only affects first time buyers • PES – planning restrictions • Regional variations • Other factors more significant e.g. income • Candidates may refer to long-term investment in private rented sector as buy-to-let increasing demand for home ownership.	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2**	
	Knowledge	
	2 marks for e.g.	
	• Define producer surplus e.g. a measure of producer welfare or the difference between what producers are willing and able to supply a good for and the price they actually receive • Diagram to show the original demand and supply curve and equilibrium • Identify the original producer surplus	
	Analysis	
	2 marks for e.g.	
	• Diagram illustrates increased producer surplus (1) resulting from demand shifting out (1)	
	Application	
	2 marks for e.g.	
	• Explain that there is an increase in prices (1) as demand for houses rises (1) • Explain that there is an extension in supply or a rise in the housing availability • House builders will make a larger surplus (profit) • Producer surplus is likely to be only for new housing. With the existing housing stock, any increase in house prices would not be referred to as increasing producer surplus as the seller still has to find a home to live in. • Effect of PED/PES on size of producer surplus	**(6)**

Question Number	Answer	Mark
6(d)	**Knowledge 2, Application 2**	
	• 1 mark for identifying the formula e.g. (new-original)/original*100 (1 mark)	
	• 1 mark for locating the data 373 (Q1 2015) minus 300 (Q1 2009)	
	• 1 mark for performing calculation	
	• 1 mark for substituting figures correctly e.g. (373 – 300)/300 * 100= 24%.	
	Accept 23 – 25%	
	NB If the answer given is 24% or 24 award 4 marks. Do not award inaccurate answers such as minus 24% as 4 marks but credit any accurate working.	**(4)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** • Prices perform a **signalling function –** they adjust to demonstrate where resources are required. • Prices act as an **incentive function** – for consumers and/or suppliers • Prices perform a **rationing function**. • House price index fell e.g. in 2007-09 from 360 to 300 (-17%). House price index increased e.g. 2009-2014 from 300 to 375 (+25%). • Use of selected PES in Figure 1 • Diagram to explain price mechanism e.g. removal of shortages and surpluses • Allow use of economic thinkers/theories e.g. **Smith's invisible hand/addressing the economic problem, Hayek's communication network.**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4-6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance
Level 3	7-9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Signals ignore negative externalities of building on green belt or higher risk of flooding. • Incentives lack perfect information or exhibit asymmetric information • Housing is an asset – speculative demand will prevent shortages from being eradicated – a "runaway train" **Extract A**. • Housing price mechanism fails to meet demand for affordable housing. • Regional inconsistencies – supply shifting inwards in parts of country or demand not increasing • Impact of recession/housing recovery fragile - prices volatile or continuously over-priced. • Long run/ short run distinction. • Lack of land/planning restrictions means PES remains inelastic. • Allow other government interventions/failure.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5-6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6** • Effects include changing property prices, rental market, affordability, shifts in demand and supply, welfare changes, environmental impact, cost to firms, cost to government, or impact on other markets. • Methods of intervention **–** e.g. subsidies, taxation, provision of information, regulation, direct provision of housing, flood defences, Help to Buy and rent controls. One type of intervention is sufficient as long as considering range of micro-effects. • Purpose of Government intervention to correct market failure **–** housing shortages and affordability. Possibility of further market and government failure. • Use of Figure 1 **to indicate UK's PES** may increase. • Use of Extract B: to increase property supply **"making new homes available more quickly".** • Candidates may consider macro issues in a micro context if part of a chain of reasoning that identifies micro impact e.g. provides incentive to build more housing increases employment. NB KAA can be positive or negative effects.	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4-6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7-10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance
Level 4	11-14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(f) continued	**Evaluation 6** • Magnitude – extent of government intervention. • Measurement difficulty • Short run, long run issues. • Information gaps. • Unintended consequences - mortgage help may **become ineffective in catching a 'runaway train'** • Impact on different interest groups. • Distortion of price signals. • Opportunity cost to Government. • Environmental impact e.g. flooding NB EV can be positive or negative effects.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning
Level 3	5-6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement

Question Number	Indicative content	Mark
6 (g)	**Knowledge 4, Application 4, Analysis 6** • Candidates may illustrate through use of appropriate diagram. • Public goods: non excludable and non rivalrous, e.g. flood defence schemes. • Failure of free market – free rider problem. • Externalities – positive or negative, e.g. housing may create these. • Information gaps: markets may have asymmetric information, e.g. insurance companies having incomplete information on risk of flooding. • Candidates may consider other types of government provision.	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4-6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7-10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance
Level 4	11-14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(g) continued	**Evaluation 6** • Unintended consequences. • Magnitude • Government failure, e.g. flood defences. • Opportunity cost of government provision. • Ineffectiveness of government provision, e.g. climate change – better to abandon areas, • Information gaps. • Non-beneficiaries pay. • Anti-competitive.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1-2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3-4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning
Level 3	5-6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement