

Mark Scheme (Results)

January 2011

GCE

GCE Economics (6EC01/01)
Paper 01

Edexcel is one of the leading examining and awarding bodies in the UK and throughout the world. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers.

Through a network of UK and overseas offices, Edexcel's centres receive the support they need to help them deliver their education and training programmes to learners.

For further information, please call our GCE line on 0844 576 0025, our GCSE team on 0844 576 0027, or visit our website at www.edexcel.com.

If you have any subject specific questions about the content of this Mark Scheme that require the help of a subject specialist, you may find our Ask the Expert email service helpful.

Ask the Expert can be accessed online at the following link:

<http://www.edexcel.com/Aboutus/contact-us/>

Alternatively, you can speak directly to a subject specialist at Edexcel on our dedicated Economics and Business telephone line:
0844 372 2187

January 2011

Publications Code US026251

All the material in this publication is copyright
© Edexcel Ltd 2011

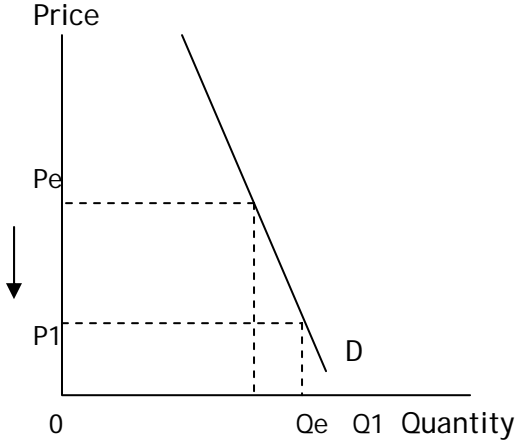
NB candidates may achieve up to 3 explanation marks even if incorrect option is selected.

NB candidates may achieve up to 3 marks for explaining three incorrect options (provided three different reasons are offered and each option key is explicitly rejected).

| Question Number | Answer | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 1 | <ul style="list-style-type: none"> • Answer C • Definition of a positive statement is required (one that is based on fact / it can be tested as true or false / a scientific approach to economics / objective statement) (1 mark). • Definition of a normative statement (one that is based on value judgement / it cannot be tested as true or false / a non-scientific approach to economics / subjective statement) (1 mark). <p style="text-align: center;">NB Do not accept 'opinion' as an explanation of a normative statement</p> <ul style="list-style-type: none"> • Application: statement 1 is positive since it can be tested to see whether financial sector workers did receive more than £13 billion in bonuses. (1 mark). • Application: statement 2 is normative since it contains the word 'fair' (1 mark). | (4) |

| Question Number | Answer | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 2 | <ul style="list-style-type: none"> • Answer B • Definition of production possibility frontier (the maximum output combinations of two goods an economy can achieve when all its resources are fully / efficiently employed) (1 mark). • Definition of opportunity cost (the value of the next best alternative foregone) (1 mark). • Application to data e.g. by producing no consumer goods output of capital goods rises by 30 to make a total of 90 (1 mark) / $90 - 60 = 30$ capital goods This may be annotated on the diagram (1 mark). <p style="text-align: center;">NB Be prepared to award up to 2 marks for a well developed explanation.</p> <p>Rejection marks include</p> <ul style="list-style-type: none"> ➤ Option 'A' is incorrect as this is the additional consumer goods that can be produced if there are no capital goods. (1 mark) ➤ Option 'C' is incorrect since 60 units of capital goods can be attained at the same time as 75 units of consumer goods. (1 mark) | (4) |

| Question Number | Answer | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 3 | <ul style="list-style-type: none"> • Answer D • Definition of consumer surplus (the difference between the price a consumer is prepared to pay for a good and the market price; also accept the area above the equilibrium price and below the demand curve) (1 mark). • Definition of specific tax (a fixed charge imposed per a unit of good / a tax placed on the expenditure on a good / a compulsory levy on suppliers) (1 mark) • Original consumer surplus is ZXPe / annotation of diagram (1 mark). • New consumer surplus is ZYP1 / annotation of diagram (1 mark). • Consumer surplus falls by PeP1YX / annotation of diagram (1 mark) <p>Rejection marks include</p> <ul style="list-style-type: none"> ➤ Option A is incorrect since P1Y times YN is total tax revenue (1 mark). ➤ Option B is incorrect since producer surplus decreases from PeXT to P1YR (1 mark). ➤ Option C is incorrect since the price of air tickets rise from Pe to P1 (1 mark) | (4) |

| Question Number | Answer | Mark |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 4 | <ul style="list-style-type: none"> • Answer C • Definition or formula of price elasticity of demand (responsiveness of demand due to a change in price or $\% \Delta D \div \% \Delta P$) OR definition of price inelastic demand (the proportionate fall in price is greater than the proportionate rise in quantity demanded) (1 mark) • Explanation of the link between a fall in price, inelastic demand and a fall in total revenue. (1 mark) • Definition of total revenue (price times quantity demanded or the total revenue received from selling a given quantity of output) (1 mark) • Accept a numerical example e.g. a 10% price fall when price elastic of demand is -0.5 will cause total revenue to fall (1 mark) • Diagrammatic analysis showing total revenue falling as price falls (up to 2 marks) <ul style="list-style-type: none"> ➤ Original revenue area and demand curve appears price inelastic(1) ➤ New and smaller revenue area (1)  <p>Rejection marks include</p> <ul style="list-style-type: none"> ➤ Option A is incorrect since falling prices will reduce the incentives for banana growers to produce since less profit / revenue (1 mark) ➤ Option B is incorrect since an excess demand for bananas would lead to an increase in price (1 mark) | (4) |

| Question Number | Answer | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 5 | <ul style="list-style-type: none"> • Answer D • Definition or formula of income elasticity of demand (responsiveness of demand due to a change in income; $\% \Delta D \div \% \Delta Y$) (1 mark). • Workings: Income decreases by 10% (1 mark) • Workings: Demand decreases by 50% (1 mark) (OR $-50\% \div -10\% = 5$ 2 marks) • Demand is income elastic or a normal good (1 mark) <p>Rejection marks include</p> <ul style="list-style-type: none"> ➤ Option A and C are incorrect since these are inferior goods | (4) |

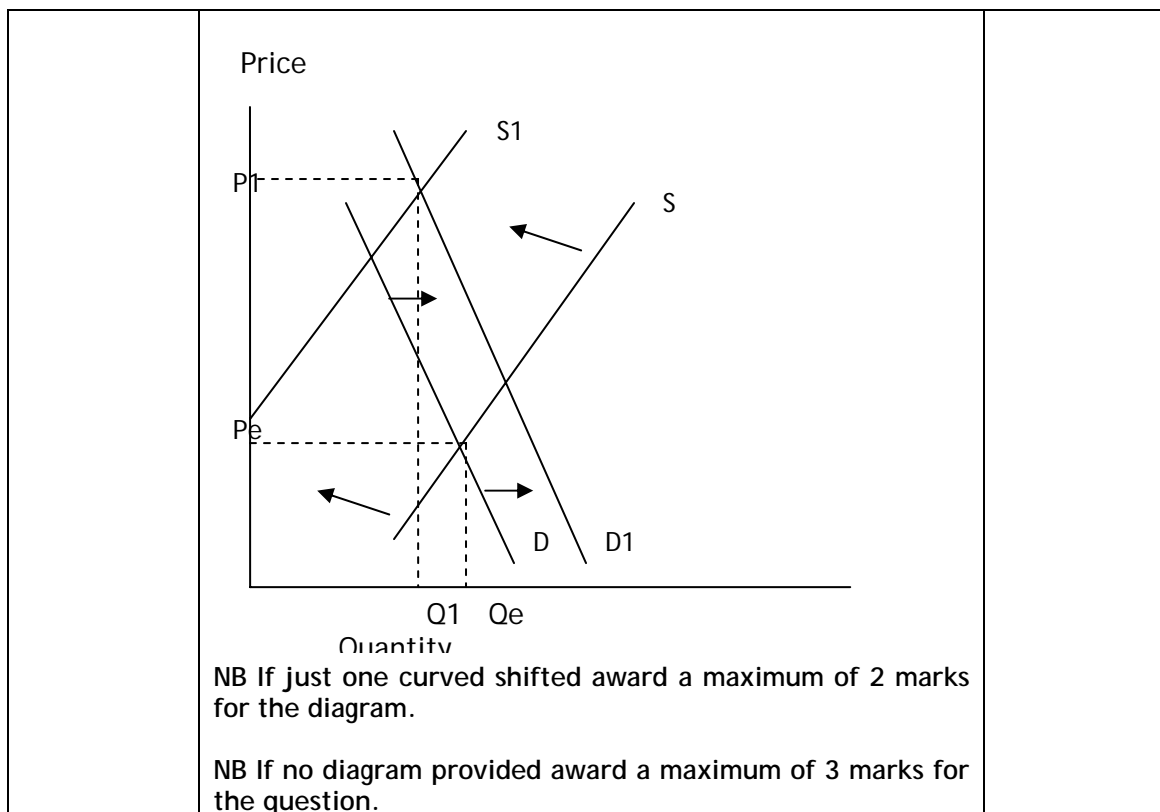
| Question Number | Answer | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 6 | <ul style="list-style-type: none"> • Answer C • Definition or formula for cross elasticity of demand (responsiveness of demand for one good due to a change in price of another good; $\% \Delta D \text{ good } y \div \% \Delta P \text{ good } x$) (1 mark) • The goods are substitutes / competitive demand (1 mark) • Application: a rise in price of rail travel will lead to an increase in demand for private motoring and vice-versa (accept a rise in price of one good causes an increase in demand for the other) (1 mark) • Diagrammatic analysis showing rail travel and private motoring (1 mark) • Complementary goods (joint demand) have a negative cross elasticity of demand (1 mark) . (This may be used as a rejection mark for option A) <p>Rejection marks include</p> <ul style="list-style-type: none"> ➤ Option B incorrect since lamb and wool are in joint supply (1 mark) ➤ Option D incorrect since oranges and bus travel are not related (1 mark) | (4) |

| Question Number | Answer | Mark |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 7 | <p>Answer A</p> <ul style="list-style-type: none"> • Definition of market failure (the price mechanism leads to a net welfare loss / inefficient allocation of resources) (1 mark). • Explanation of type of market failure e.g. : external benefits may be ignored by the price mechanism / this could lead to under provision or under consumption of health care / relevant example such as reduced time off work or a reduction in the spread of diseases (1+ 1 + 1 marks) • A diagrammatic analysis showing external benefits (1 mark) • Explanation of type of market failure e.g. imperfect market knowledge or asymmetric information / many people do not realise the importance of making provisions for healthcare for when they may become ill (1 +1 marks). • Explanation of type of market failure e.g. inequality of income so some people lack of income to afford private healthcare / government intervention in the form of taxation of incomes to help fund healthcare so it is free at point of consumption (1 + 1 marks). <p>Rejection marks include</p> <ul style="list-style-type: none"> ➤ Option B is incorrect since the government should subsidise a good which yields external benefits as there is under-consumption / under-provision (1 mark). ➤ Option C is incorrect since abolition of tradable permits will increase pollution (1 mark). ➤ Option D is incorrect since the government should tax goods which yield high external costs as there is over-consumption / over-provision (1 mark). | (4) |

| Question Number | Answer | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 8 | <p>Answer B</p> <ul style="list-style-type: none"> • Definition or understanding of the geographical mobility of labour or immobility of labour (the ability of labour to move from one region / area to another to take available work). (1 mark). • Definition of affordability (ratio of house prices to earnings / income) (1 mark) • It is harder for labour to move into a region with higher average house prices / due to more expensive to buy or rent or difficulty in obtaining a mortgage (1 + 1 marks). • Application e.g.: south-east and London house prices far more expensive than rest of UK so harder for labour to move into the region (1 mark). • Accept an outline of other causes of geographical immobility of labour e.g. family ties, removal costs and imperfect job market knowledge (1 mark) <p>Rejection marks include</p> <ul style="list-style-type: none"> ➤ Option A is incorrect as training and qualifications affect the occupational mobility of labour (1 mark). ➤ Option C is incorrect since relocation grants will make it easier for labour to move to other regions (1 mark). ➤ Option D is incorrect since a reduction in petrol prices will lower transport costs in getting to and from work (1 mark). | (4) |
| Question Number | Answer | Mark |
| 9(a) | <p>KAA = 4 marks</p> <ul style="list-style-type: none"> • Definition or formula of price elasticity of supply (the responsiveness of supply of a good due to a change in its price or, $\% \Delta QS \div \% \Delta P$) (1 mark). • Supply appears to be price inelastic in the short run / the extract refers to up to 2 years for supply to respond to changes in price of sugar (1+1 marks). • Supply may become relatively price elastic in the long run as farmers have more time grow sugar / New entrants attracted by higher prices / destroy rainforest to grow sugar (1 mark). | |

| | | |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| | <ul style="list-style-type: none"> • Reference to stock piles affecting elasticity either in short run or long run (1 mark). • Diagram showing how price elasticity of supply might change over time (1 mark). • Understanding that in the short run at least one factor input is fixed in quantity whereas in the long run all factor inputs are variable (1 mark). | (4) |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|

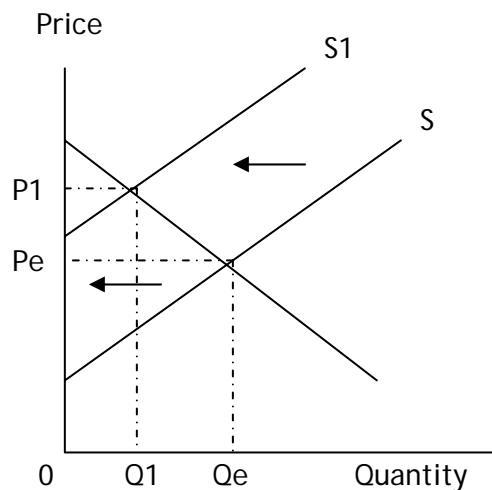
| Question Number | Answer | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 9(b) | <p>KAA = 6 marks</p> <ul style="list-style-type: none"> • Data reference e.g. price of sugar has increased to 50 cents (1 mark) • An increase in demand due to speculation / speculative buying of sugar: (1 mark). • A decrease in supply due to excess rain or poor weather in Brazil or supply of sugar cane being diverted to production of ethanol (1 mark). • Reference to supply or demand being inelastic and so causing a significant rise in price (1 mark) • Diagrammatic analysis which shows: <ul style="list-style-type: none"> ➤ an increase in the demand curve (1 mark). ➤ a decrease in the supply curve (1 mark). ➤ original equilibrium price (1 mark). ➤ new final equilibrium price (1 mark). | (6) |



| Question Number | Answer | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 9(c) | <p>KAA = 6 marks</p> <ul style="list-style-type: none"> • Definition of income elasticity of demand or formula (1 mark). • Definition / outline of a normal good (as income increases so does demand increase or as income decreases so does demand decrease) (1 mark). • Normal goods have a positive income elasticity of demand (1 mark). • Definition / outline of inferior good (as income increases demand decreases or as income decreases demand increases) (1 mark). • Inferior goods have a negative income elasticity of demand (1 mark). • Numerical example of either a normal or inferior good (1 | |

| | | |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| | <p>mark)</p> <ul style="list-style-type: none"> • Other examples of either inferior goods / normal goods (1 mark) • Reference to last paragraph in Extract 2: the recession means falling income / but sales of chocolate have increase so it appears to be an inferior good (1 mark). • Diagram depicting chocolate an inferior or normal good (1 mark) <p>Evaluation (2+2 marks or 3+1 marks or 4 marks)</p> <ul style="list-style-type: none"> ➤ The reason why chocolate and sweets might be regarded as inferior goods in a recession is because they are relatively cheaper than other leisure based products such as holidays or entertainment. ➤ Chocolate and sweets are not inferior goods when (real) incomes increase. They are more like luxury goods as non-essential. ➤ All other things may not be equal (not ceteris paribus) since other factors may have caused the increase in sales of chocolate such as consumer preferences/need for comfort eating / price of chocolate may have fallen. ➤ Discussion on the type of chocolate and sweets - there are various cheap brands (for example, low cocoa percentage mass produced bars) and also very expensive brands (for example, hand-made chocolate). The latter are likely to be luxury goods with a high positive income elasticity of demand. ➤ Data incomplete on different types of chocolate and other factors that might determine the demand for chocolate. | (10) |
|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Question Number | Answer | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 9(d) | <p>KAA = 8 marks</p> <ul style="list-style-type: none"> • The increase in price of sugar will increase production costs for companies making chocolate and sweets (1 mark). • It is likely that price will increase and output decrease for chocolate and sweets (1+1 marks). • In addition, further marks can also be achieved through use of a diagram: <ul style="list-style-type: none"> ➤ A decrease in the supply curve (1 mark) ➤ New higher equilibrium price (1 mark). ➤ Original revenue and new revenue identified (or change in total revenue) (1+1 marks) <p>NB if no diagram, award a maximum of 6 KAA marks</p> | |



- Profits may fall / firms may go bankrupt / job losses (1+1+1 marks)
- Firms may seek to cut production costs e.g. by mergers or sourcing cheaper materials (1+1 marks).
- Fall in producer surplus (1 mark).

Evaluation: (3+3 or 2+2+2 marks)

- Discussion of magnitude of the price increase: Extract 1 refers to the raw sugar price increasing by 80% in 2009 / so one might expect a significant impact for chocolate and sweet manufacturers.
- Discussion on sugar cost as a proportion of total costs for chocolate and sweet manufacturers. Extract 2 indicates that sugar is only the third most expensive ingredient behind cocoa and milk for Mars / suggests that the rise in sugar prices will not impact much for chocolate and sweet manufacturers. (Accept argument that the third most expensive ingredient is significant)
- Discussion on other input costs apart from ingredients, for example, labour, capital (machinery & factory), transport, packaging and advertising. It suggests relatively limited impact of the increase in sugar prices.
- Price of milk falls so offsetting rising sugar cost / discussion of the significance.
- Discussion of price elasticity of demand for chocolate and sweets. If price inelastic demand then chocolate and sweet manufacturers can easily pass on the extra costs to their customers through higher prices.
- Extract 2 the demand for chocolate has increased and so enabling firms to pass on additional costs to consumers through higher prices.
- Discussion of time period / fluctuations in sugar prices. It might be that sugar prices will fall back in the future so little long term impact.

(14)

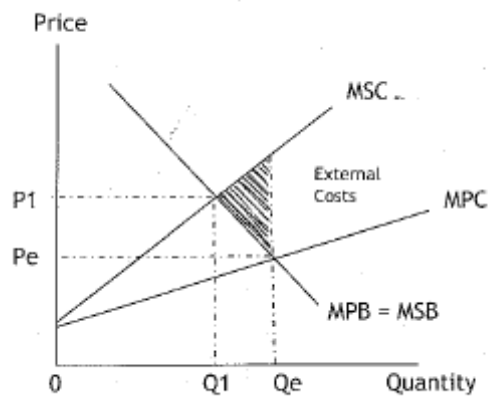
| | | |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| | <p>Quality of written communication skills will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument. • To Organize information clearly and coherently. • To use economics vocabulary appropriately. • To use grammar, spelling and punctuation appropriately. | |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

| Level | Mark | Descriptor |
|---------|-------|-----------------------------------------------------------------------------------------------|
| Level 1 | 1-2 | Identification of higher price and lower output. |
| Level 2 | 3-8 | Explanation of impact on profits, employment, costs of production, producer surplus, diagram. |
| Level 3 | 9-11 | One evaluation point. |
| Level 4 | 12-14 | Two or three evaluation points. |

| Question Number | Answer | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 9(e) | <p>KAA = 8 marks</p> <ul style="list-style-type: none"> • Definition / understanding of market failure (the price mechanism leads to an inefficient allocation of resources / net welfare loss) (1 mark). • Explanation of type of market failure, e.g. external costs imperfect knowledge, and unstable commodity prices • External costs: definition of external costs: cost external to an exchange / negative third party effect / spillover from production or consumption / cost which the price mechanism fails to take into account / cost outside of a transaction / social cost minus private cost equals external cost (1+1 marks). • External costs of consumption of sugar: impact of ill health on third party e.g. increased NHS spending / absenteeism from work / loss of revenue for employers / lower tax revenue / more benefits spending (up to 3 marks). • External costs of production of sugar: clearance of rainforests / damage to soil, wildlife and plant life / danger of libel action against producers / loss of tourism (up to 3 marks). NB any appropriate example will trigger a mark. • Imperfect market knowledge: consumers may not realize the long term damage from consuming too much sugar e.g. ill health, for example, obesity, heart disease, diabetes, tooth decay, reduced life expectancy / reduced potential earnings from work (3 marks). NB any appropriate example will trigger a mark. • Relevant diagram depicting external costs in production (also accept diagram depicting the equilibrium output for | |

MSB as less than MPB in the consumption of sugar) (up to 4 marks).

- Market equilibrium MPB = MPC curves(1)
- MSC curve (1)
- Social optimum position where MSC = MSB (1)
- Welfare loss triangle (1)



- Unstable commodity prices e.g. unstable producer incomes / falling investment / affordability for consumers (3 marks)

NB: Reference must be made to both consumption and production of sugar, otherwise cap at 6 marks for KAA.

Evaluation (3+3 or 2+2+2 marks)

- Significance of market failure: concerning external costs the market equilibrium output will exceed the social optimum output / sugar is over-produced and over-consumed / market price differs from social optimum price.
- Magnitude of external costs: sugar is heavily over-consumed in developed countries and responsible for many premature deaths / and so enormous pressure on health care provision / implications for taxation.
- Time factor: external costs from sugar may diminish if healthier substitutes are developed or grow in popularity / improved market knowledge has may lead to healthier lifestyles.
- Obesity and heart disease may be caused by factors other than the consumption of sugar e.g. burgers and smoking

(14)

| | | |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| | <ul style="list-style-type: none"> • The sugar shortage in US is more associated with government failure by restricting imports of sugar to protect domestic farmers. This is not a market failure. Government actions also damage farmers in developing countries. • Government import restrictions is a good idea since it increases sugar price and so reduces consumption of a good associated with health problems. • Difficulty in measuring and attaching a monetary value to external costs / making it difficult to assess the extent of the market failure. • Speculative buying of sugar in the commodity market / leading to profiteering or uncertainty over future prices. • Sugar is not a complete market failure since benefits associated with production / consumption: <ul style="list-style-type: none"> ➤ Major source of income and employment in some developing countries. ➤ Export earnings for some developing countries. ➤ Major source of calorie intake for some people on low incomes. ➤ Quality of sugar - is it raw cane or refined? <p style="text-align: center;">NB No marks available for discussion of solutions to market failure / or discussion of government failure</p> <p>Quality of written communication skills will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument. • To organise information clearly and coherently. • To use economics vocabulary appropriately. • To use grammar, spelling and punctuation appropriately. | |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

| Level | Mark | Descriptor |
|---------|-------|----------------------------------------------------------------------------|
| Level 1 | 1-4 | Definition of market failure and type e.g. external costs and application. |
| Level 2 | 5-8 | Application of market failure to both consumption and production of sugar. |
| Level 3 | 9-11 | One evaluation point developed. |
| Level 4 | 11-14 | Two or more evaluation points developed. |

| Question Number | Answer | Mark |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 10(a) | <p>KAA = 4 marks</p> <ul style="list-style-type: none"> • Definition of NMW [the legal minimum hourly rate of pay employers can set] (1 mark) • Data reference to extract 1 e.g. the actual increase in minimum wage or the level of minimum wage or increase in food and fuel prices (1 mark) • Identification of a reason for government intervention to impose NMW (1 mark) and its development (up to 3 marks). <p>Reasons might include:</p> <ul style="list-style-type: none"> ➤ Reduce poverty / inequality / exploitation: the NMW may help poor people who are in low paid job / create fairer society / help part-time or female or young unskilled workers / maintain incentive to work. ➤ Reduce voluntary unemployment: the increase in NMW makes it worthwhile for low paid to remain in their jobs / fill low paid job vacancies / prevent unemployment trap or poverty trap / maintain differential between low paid work and benefits such as Job Seekers' Allowance ➤ Inflation / cost of living: to keep up with cost of living (higher fuel and food prices) / so that in real terms the NMW remains the same / to afford basic necessities. ➤ Earnings growth: to keep up with growth in average earnings / so in relative terms the NMW keeps its value / maintain incentive for low paid to remain in their jobs ➤ Training & productivity: the increase in NMW may give greater incentive for employers to train low paid staff / to raise productivity levels / and so justify the wage increase. <p>NB: Accept an overlap in the explanation of a reason offered.</p> | (4) |

| Question Number | Answer | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 10(b) | <p>KAA = 6 marks</p> <ul style="list-style-type: none"> • Definition of government failure (government intervention which leads to a net welfare loss / inefficient allocation of resources) (1+1 marks). Also accept idea of government intervention to correct market failure but it makes things worse (1 mark). NB a maximum of 2 marks available for definition. • Data reference to tax evading activities or unrecorded cash payments (1 mark) • Identification of tax evading activities being illegal (1 mark) • Hairdressers not declaring all their income / less tax revenue to the government (1+ 1 marks). • Employers may pay below NMW rate / use of example such as immigrants or young unskilled / less tax revenue to the government (1 + 1 + 1 marks). • Weak government implementation of NMW / monitoring and enforcement of hairdressers paying below the minimum wage (1+1 marks). • An increase in the NMW may increase unemployment in hairdressing / and also reduce tax revenue or increase in benefits as without government intervention more staff may be employed (1+1 marks). <p>Accept 'higher order analysis' which suggests the government failure is not significant since: the NMW increase is small / data reference to hourly wage increases of 7p per hour / not worth the risk of fines for breaking law / especially as severe penalties / difficult to obtain staff / 87% of employees are paid above NMW / labour productivity still above wage cost / so profit made on employees even with higher wage. (2 marks)</p> <p>NB if no reference to informal economy or tax evading activities award up to 2 marks for the link with unemployment and loss of government revenue</p> | (6) |

| Question Number | Answer | Mark |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 10(c) | <p>KAA = 6 marks</p> <ul style="list-style-type: none"> • Definition or understanding of the division of labour (production of a good or service is broken down into different tasks and labour allocated to each task) (1 mark). • Application of division of labour to hairdressing: male or female cuts / hair stylists / washing hair / cleaning and serving drinks / cashier (1 mark) • Explanation of one or more benefits: <ul style="list-style-type: none"> ➤ Increase in productivity (efficiency) / reducing costs per unit / leading to higher profits or revenue (1+1+1 marks). ➤ Diagram showing an increase in the supply curve (1 mark) ➤ Repetition means workers become more skilled / faster at specific tasks (1 + 1 marks). ➤ Less training costs / less staff turnover (1+ 1 marks). ➤ More effective use of capital / seating and hair machines (1 + 1 marks). <p>NB if not application to hairdressing award a maximum of 4 marks for KAA</p> <p>Evaluation (2+2 marks)</p> <ul style="list-style-type: none"> ➤ Division of labour is quite limited in hairdressing salons since often just a one or two person business. ➤ Specialisation may limit a hairdressers market e.g. men's (barbers) or women's hairdressers. ➤ The provision of a personal service also means less room for specialisation for a haircut. ➤ Limited career opportunities through specialisation. ➤ Disadvantages may outweigh advantages, for example, repetition leads to boredom / reduced productivity / increased staff turnover. ➤ Division of labour may make the hairdressing business highly dependent on just one or two individual | (10) |

| | | |
|--|------------------------------------------------------------------------------------------------|--|
| | members of staff - danger of illness or sudden resignation from job could expose the business. | |
|--|------------------------------------------------------------------------------------------------|--|

| Question Number | Answer | Mark |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 10(d) | <p>KAA = 8 marks</p> <ul style="list-style-type: none"> Data reference of the actual increase or level of the minimum wage e.g. 7p, 1.2% or £5.80 an hour / National Hairdressers Federation believes significant job losses will occur in current economic climate (1 + 1 marks) The increase in NMW increases costs / lower profits or even losses/ firms may lay off workers or exit industry (1+1 + 1 marks). Diagram of a labour market which shows (up to 5 marks): <ul style="list-style-type: none"> Initial diagram of labour market (both demand & supply curves) (1) Original NMW line (anywhere on diagram) (1) New and higher NMW line (anywhere on diagram) (1) Demand for hairdressers contract (fall from N1 to N3) or original excess supply (N1/ N2) (1). Supply for hairdressing work extends (from N2 to N4) or new excess supply (N3 - N4) (1) <p>Wage £</p> <p>Quantity of labour</p> <p>NB: Candidate may show NMW below or at free market wage equilibrium but likely to gain a maximum of 3 marks for the diagram.</p> <p>NB: if no labour market diagram award a maximum of 5 marks in this section.</p> <p>Evaluation (2+2+2 or 3+3 marks)</p> | |

| | | |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| | <ul style="list-style-type: none"> • Impact on job losses depend upon: <ul style="list-style-type: none"> ➤ Magnitude of NMW increase: the extract indicates this is very low at just 7p per hour (6p and 4p respectively for 18-21 year olds and 16-17 year olds) / so not much impact on job losses. ➤ Wage or price elasticity of demand for labour: if inelastic then few jobs lost / if elastic than more jobs lost / reference can be made to diagram. ➤ It depends on wage costs as a proportion of total costs: if low then easy to absorb the higher wages costs / if high then harder to absorb the wage rise / hairdressing is quite labour intensive with 126,000 employed in 2008. ➤ Most hairdressers are paid above NMW so little impact of the increase in NMW / data reference to just 27% being paid at the NMW or 73% paid above NMW / implies support for argument made by Brendan Barber, TUC general secretary (this could be shown by NMW being drawn so it remains below the free market wage). ➤ Trainee hairdressers are not subject to national minimum wage / despite extract implying trainee places may be cut. ➤ Employment in hairdressing actually increased by 5000 in 2008 / despite previous increases in the NMW. ➤ Economic recovery now underway so easier for firms to pass on extra wage costs to customers. ➤ Firms may decide to employ people illegally below the NMW / so limited impact on job losses if employees accept situation. ➤ Discussion of short run and long run implications. <p>Quality of written communication skills will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument. • To organise information clearly and coherently. • To use economics vocabulary appropriately. • To use grammar, spelling and punctuation appropriately | (14) |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|

| Level | Mark | Descriptor |
|---------|-------|------------------------------------------------|
| Level 1 | 1-2 | Impact on job losses / higher wage costs. |
| Level 2 | 3-8 | Diagram showing an increase in the NMW |
| Level 3 | 9-11 | One evaluation point developed. |
| Level 4 | 12-14 | Two or three evaluation points well developed. |

| Question Number | Answer | Mark |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 10(e) | <p>KAA = 8 marks</p> <p>Factors influencing the supply of labour to any one occupation (2+2+2+2 marks or 3+3+2 marks).</p> <ul style="list-style-type: none"> ➤ The wage rate or earnings / as the wage rate increases then so too will the supply of labour rise due to incentive of higher pay. ➤ Net advantages to an occupation / these include tips, hours of work, cleanliness of environment, career progression, job satisfaction, private pension scheme, sick pay and paid holidays. ➤ The level of qualifications, training or work experience required for a particular occupation / the higher the qualifications, training and work experience required, the lower the supply of labour. ➤ Income tax or national insurance contributions / the higher the rates of tax the lower the potential supply of labour. ➤ Government social security benefits such as Job Seekers Allowance and Housing benefit / the higher the benefits, the lower the supply of labour to low paid occupations. ➤ Higher university tuition fees or scrapping Education Maintenance Grants / may lead to increase in supply of school leavers to labour market. ➤ Raising of school leaving or retirement age / lead to an increase in supply of labour. ➤ Net migration flows into UK / the single European market has increased net migration flows into the UK. ➤ Trade Unions affecting rates of pay and other work conditions / so increasing supply of labour. ➤ Accept factors influencing the geographical supply of labour such as house prices. <p>NB Do not accept the NMW.</p> <p>Evaluation (2+2+2 or 3+3 marks)</p> | |

| | | |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| | <p>➤ Magnitude of factors affecting supply, for example, tips are substantial in hair dressing or, dangers involved in certain occupations (armed forces) are so great as to discourage supply.</p> <p>➤ Prioritise between factors: for example, job satisfaction or career progression may be more important than pay, or flexibility in hours of work could be more important than pay.</p> <p>➤ Time factor: For some occupations where significant training / qualifications are involved, supply might be limited in the short run but increase in the long run. Discussion of elasticity of supply is acceptable here.</p> <p>➤ State of economy: many people may be discouraged from seeking work in a recession but encouraged to seek work in an economic recovery.</p> <p>➤ Accept discussion of income and substitution effects / backward sloping supply curve.</p> <p>Quality of written communication skills will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • To present an argument and conclude on the basis of that argument. • To organise information clearly and coherently. • To use economics vocabulary appropriately. • To use grammar, spelling and punctuation appropriately. | (14) |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|

| Level | Mark | Descriptor |
|---------|-------|----------------------------------------------------|
| Level 1 | 1-2 | Identification of two or more supply determinants. |
| Level 2 | 3-8 | Explanation of two or more supply determinants. |
| Level 3 | 9-11 | At least one evaluation point developed. |
| Level 4 | 12-14 | At least two or more evaluation points developed |

6EC01: January 2011: Assessment Objectives

| Question | Knowledge | Application | Analysis | Evaluation | Total |
|----------------------------|-----------|-------------|-----------|------------|-----------|
| Section A | | | | | |
| Q1 | 2 | 1 | 1 | | 4 |
| Q2 | 1 | 2 | 1 | | 4 |
| Q3 | 2 | 1 | 1 | | 4 |
| Q4 | 1 | 2 | 1 | | 4 |
| Q5 | 1 | 2 | 1 | | 4 |
| Q6 | 2 | 1 | 1 | | 4 |
| Q7 | 2 | 1 | 1 | | 4 |
| Q8 | 1 | 2 | 1 | | 4 |
| Total | 12 | 12 | 8 | | 32 |
| Section B | | | | | |
| Q9 (a) | 2 | 1 | 1 | | 4 |
| Q9 (b) | 2 | 3 | 1 | | 6 |
| Q9 (c) | 2 | 2 | 2 | 4 | 10 |
| Q9 (d) | 2 | 4 | 2 | 6 | 14 |
| Q9 (e) | 4 | 2 | 2 | 6 | 14 |
| Total | 12 | 12 | 8 | 16 | 48 |
| Q10 (a) | 2 | 1 | 1 | | 4 |
| Q10 (b) | 2 | 2 | 2 | | 6 |
| Q10 (c) | 2 | 3 | 1 | 4 | 10 |
| Q10 (d) | 2 | 4 | 2 | 6 | 14 |
| Q10 (e) | 4 | 2 | 2 | 6 | 14 |
| Total | 12 | 12 | 8 | 16 | 48 |
| Grand Total A+B | 24 | 24 | 16 | 16 | 80 |

Further copies of this publication are available from
Edexcel Publications, Adamsway, Mansfield, Notts, NG18 4FN

Telephone 01623 467467

Fax 01623 450481

Email publications@linneydirect.com

Order Code US026251 January 2011

For more information on Edexcel qualifications, please visit www.edexcel.com/quals

Edexcel Limited. Registered in England and Wales no.4496750
Registered Office: One90 High Holborn, London, WC1V 7BH