Mark Scheme (Results)

Summer 2019

Pearson Edexcel GCE AS Level
in Economics A (8EC0)

Paper 01 Introduction to Markets and Market Failure

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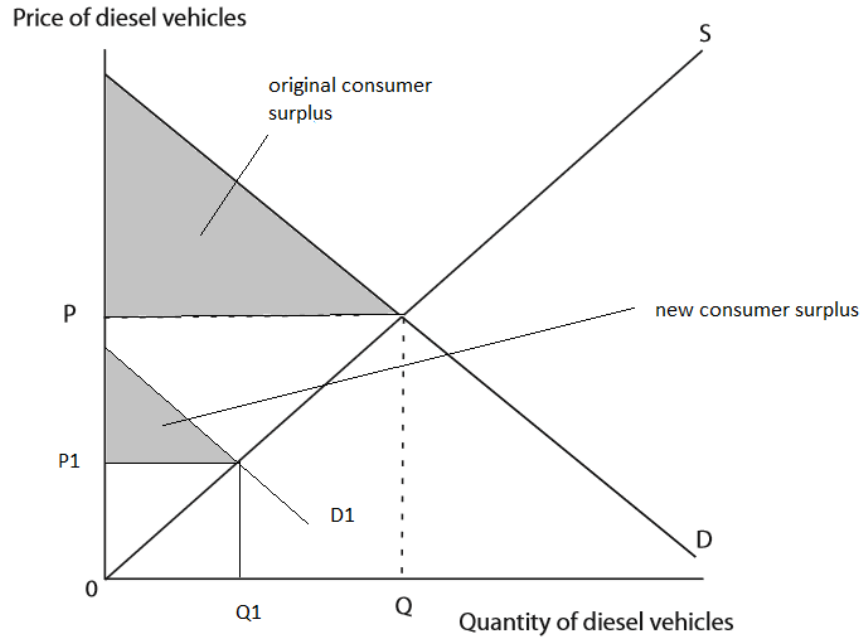
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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- 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/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked unless the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	**Knowledge 1** **The only correct answer is A** ***B*** *is not correct because whilst Hayek is associated with free market economy thinking, reference to Adam Smith is made in the context of specialisation and the division of labour.* ***C*** *is not correct because Keynes is mostly associated with 'animal spirits' and the multiplier effect.* ***D*** *is not correct because Marx is associated with the disadvantages of the free market and the case for a command economy.*	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for definition of division of labour or workers specialised e.g. Where a task is broken down into its component parts or Where an individual concentrates on one particular task to the exclusion of others **Application** 1 mark for application – Application to the car industry e.g. A worker who adds tyres to a car **Analysis** 1 mark for linked development e.g. increased productivity or reduces unit costs or higher output	**(3)**

Question Number	Answer	Mark
2 (a)	**Application 2** Identify demand shifts left (1) Annotate or identify reduced consumer surplus (1)  **NB If the candidate shows an incorrect shift, but the new consumer surplus is correct, award 1 mark**	**(2)**

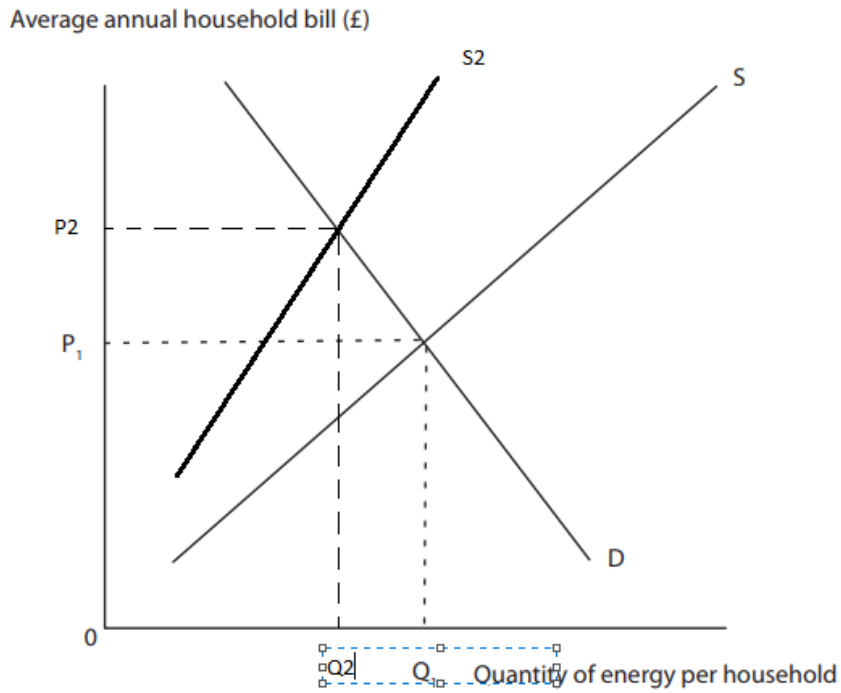
Question Number	Answer	Mark
2(b)	**Knowledge 1** **The only correct answer is C** ***A*** *is not correct because irrational behaviour would suggest an increase in demand.* ***B*** *is not correct because if consumers expected price of diesel to rise they would increase demand for diesel.* ***D*** *is not correct because they are not rival products.*	**(1)**

Question Number	Answer	Mark
2(c)	**Knowledge 1** **Knowledge** 1 mark for definition, e.g. Amount consumers are willing and able to buy (1) Amount consumers buy at a particular price/period of time (1)	**(1)**

Question Number	Answer	Mark
3(a)	**Application 1** **The only correct answer is D** ***A*** *is not correct because a negative figure would indicate they are complements* ***B*** *is not correct because a figure less than one indicates a distant relationship* ***C*** *is not correct because whilst positive is a substitute a figure less than one does not indicate a close relationship.*	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 2** **Knowledge/Understanding** 1 mark for identifying revenue as price x quantity (this understanding may be implicit) **Application** 1 mark for calculating percentage change in quantity (-)1.5% or actual change 18.8135 million tickets (allow 18.8 million) 1 mark for correct answer £143.547 million (allow 143.5 to 143.6) **NB Award 3 marks for correct answer £143.547 million (allow 143.5 to 143.6)** **NB Maximum of 2 marks if correct answer is not given**	**(3)**

Question Number	Answer	Mark
4(a)	**Application 1** **The only correct answer is A** ***B*** *is not correct because the candidate has mistakenly divided 1070 by 0.5* ***C*** *is not correct because the candidate has mistakenly multiplied 1070 by 1.005* ***D*** *is not correct because the candidate has mistakenly multiplied 1070 by 1.05*	**(1)**

Question Number	Answer	Mark
4(b)	**Application 2**  1 mark for skewed (pivoted) leftward shift of supply curve 1 mark for new equilibrium **NB if a parallel leftward shift of supply with correct new equilibrium maximum 1 mark**	**(2)**

Question Number	Answer	Mark
4(c)	**Knowledge 1** **Knowledge** 1 mark for definition, e.g. an indirect tax is imposed on producers (suppliers) by the government (1) tax on good or service which is added to their price (1) tax on consumer expenditure (1)	**(1)**

Question Number	Answer	Mark
5(a)	**Application 1** **The only correct answer is C** ***A*** *is not correct because they may multiplied 8.75 by -0.1* ***B*** *is not correct because they have mistakenly taken 2017 as the original year in the percentage change calculation* ***D*** *is not correct because the percentage change in quantity demanded has not been multiplied by -0.1.*	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/Understanding** 1 mark for recognition of the effect of a change in income on the demand **Application** 1 mark for application to Freddo, e.g. • YED is negative (1) • Freddos is an inferior good (1) • YED is inelastic **Analysis** 1 mark for linked development, e.g. • Sales revenues fall as incomes rise or • Sales revenue rise when incomes fall • Company should plan to produce less when the economy does well or • Company should plan to produce more when economy/incomes are not growing	**(3)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark for infinite wants and finite resources (1) **Application** 1 mark each for any one of the following for infinite wants: • Consumers of health care have a growing list of medical concerns for essential/non essential treatment/waiting list 4 million (1) • Ageing population (1) • New medical technologies(1) 1 mark each for any one of the following for finite resources: • Number of doctors/nurses (1) • Number of hospital beds available/bed occupancy rates 99% (1) use of Figure 2 e.g. • Waiting time has increased from 5.7% (1) to 10.7% (1) **Analysis** Up to 2 marks for any one of the following in linked development OR two limited examples of analysis (1+1): • Health resources are scarce (1) so Hospitals have to make choices about who to treat (1) • Decisions need to be made on what, how, why and for whom to treat (1+1) • Opportunity cost of making a medical choice/decision (1) • Government health priorities (1)	**(5)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** 2 marks for e.g. • producers know more than consumers (1) or the information is incomplete or imperfect (1) • misallocation of resources (1) **Application** 1+1 mark for e.g. • risk of requiring health care is an unknown (1) • Doctors know more than patients (1) **Analysis** Up to 2 marks for any one of the following in linked development to market failure OR two limited examples of analysis (1+1): • Under consumption of healthcare (1) so patients' health conditions deteriorate (1) • Consumers overcharged for health treatment (1) as they are unaware of the true cost of health care (1) • Unnecessary treatment (1) as consumers unaware of health needs (1) • Patients lack of awareness of waiting times and NHS priorities (1)	**(6)**

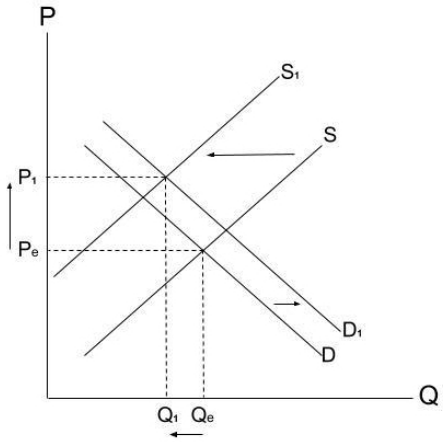
Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** • Knowledge – public goods are non-excludable and non-rivalrous • Application - Extract C suggests public parks exhibit these features Reasons why they are public goods • 'free use' i.e. do not have to pay to enter • 'share the park with other users' • 'no exclusive use of the park' • Park run users 'share the park' with other users indicating one person using the park for a run does not have an impact on another person's enjoyment so non-rival. **NB Reasons for/against being a public good may be presented as either KAA or EV**	**(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 link between causes and consequences.
Level 2	3–4	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 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(c) continued	**Evaluation 4** Reasons against being public good • Local authorities planning on charging parkrun participants using public parks • Public parks already have exclusive areas e.g. booking tennis courts or football pitches • Parks may be rivalrous in consumption e.g. Hundreds of park run participants may get in the way of other users. • Parks are also excludable because they already have exclusive areas, gates can be closed at certain times	**(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(d)	**Knowledge 2, Application 2** £12 * 450 million (1) = £5.4 billion (1) £5.4 billion * 90% = £4.86 billion (1) £5.4 billion - £4.86 billion (1) = £0.54 billion £5.4 billion * 10% (1) = £540 million (1) **NB Award 4 marks for a correct answer of £540 million/£0.54 billion. Award up to 3 marks for correct working but overall correct answer missing.**	**(4)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Demand shifting right and/or Supply shifting left e.g.  Reasons for demand shifting right: • Ageing population, migration • Medical technological advances • NHS as a substitute less attractive, inferior good, waiting times. • Peer pressure Reasons for supply shifting left: • high management and administrative costs • salaries/wages rising due to doctor/nurse shortages • removal of subsidy/higher tax on private health care treatment • rising rents of private hospitals • rising cost of machinery in health care. **NB For Level 3 KAA one relevant diagram.**	**(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 link 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 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 applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Magnitude depends on how proportionately large the shift in demand or supply is as a key determinant • Price elasticity of demand may be more price elastic in the long run, given improvements in the NHS, discouraging further price increases • Price elasticity of supply may be relatively price inelastic, given health infrastructure, so price rise may be very significant • Other factors may reduce price e.g. government subsidies, productivity gains, healthier lifestyles.	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	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	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6** Define excess demand. Application of excess demand to state funded health care. Government interventions: Factors influencing demand and supply (PES) that may result in the removal of excess demand (new hospitals built/doctors trained). Purpose of intervention with reference to market failure and using diagrams in various contexts: • government spending on direct provision increases supply • charging for NHS health care rations • indirect taxation (ad valorem or specific) on sugar/high fat content food/drinks or cutting taxes on healthier lifestyle options • subsidies on healthy food/gym memberships • maximum and minimum prices on healthy and unhealthy food/drinks Other methods of government intervention: • state provision of public goods e.g. public parks • provision of information e.g. 5 a day • regulation e.g. restricting sugar content • o subsidising private treatment	**(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 chains 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** Government failure to reduce excess demand. Understanding of government failure as intervention that results in a net welfare loss; consumers face an under provision of food/drink that satisfies them i.e. marginal social benefits now exceed marginal social costs. Consumer choice restricted e.g. heavily subsidised healthy school meals and regulations against unhealthy options. Causes of government failure: • distortion of price signals • unintended consequences – charging for health care results in under consumption. • excessive administrative costs • information gaps – what is healthy, concerns about low sugar food/drink contents • time lag of the policies • magnitude depending on size of funding change. Irrational consumer behaviour - peer pressure.	**(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** Distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx Disadvantages of free market approach: • Free market under provision of health services, with large external benefits (SMB>SMC analysis), below social optimum. • Sick unable to work – loss of potential output, PPF. • Addressing concerns on affordability to access health care, insurance and information gaps e.g. preventative earlier treatments for elderly and children. • Misallocation of resources on administration of charges. • Profit incentive misallocating resources ahead of patient needs. • Asymmetric information on need to pay for treatment and quality of care. • Missing markets for elderly, children, remote rural areas.	**(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 chains 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** Functions of the price mechanism to allocate resources in private health sector or NHS: • rationing • incentive • signalling • 'Private health care increases choice for users, encourages competition and drives up standards of care.' • Mixed economy acts as a compromise between the advantages and disadvantages of a free market economy and a command economy. • Mixed economy features disadvantages of both a free market economy and a command economy and has no advantages of either. • NHS is more efficient and offers better care than private sector so why allow private sector to exist. • NHS waiting lists and lack of choice. • Information failures.	**(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.

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