

Mark Scheme (Results)

Summer 2023

Pearson Edexcel GCE AS Level
In Economics A (8EC0)
Paper 01 Introduction to Markets and Market Failure

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

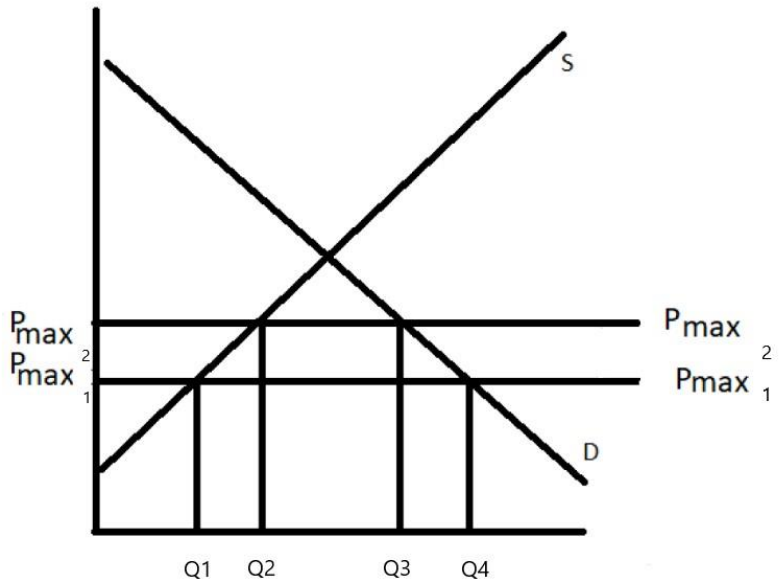
Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

Summer 2022
Publications Code 8EC0_01_2306_MS
All the material in this publication is copyright
© Pearson Education Ltd 2022

General Marking Guidance

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

Question Number	Answer	Mark
1(a)	**The only correct answer is C** *is not correct because this is the change divided by the new price* *is not correct because this is a distractor* ***D** is not correct because 694 is the change in price*	**(1)**

Question Number	Answer	Mark
1(b)	**Application 2** Identifies original maximum price below equilibrium (1) Identifies the new maximum price above original (1) £1277 (1) & £1971(1) for new and original permitted  	**(2)**

Question Number	Answer	Mark
1(c)	**Knowledge 1** **Knowledge/Understanding:** 1 mark for definition, e.g. • The price at which supply equals demand. • The balanced point with no tendency to change • No excess demand or excess supply • Market clearing price	**(1)**

Question Number	Answer	Mark
2(a)	**Knowledge 1, Application 1 and Analysis 1** **Knowledge/understanding** 1 mark for factor e.g. • Supply of gas is price inelastic (1) • Lack of storage/stockpile (1) • Lack of spare capacity (1) • Inflexible resources (1) • Time period (1) • Alternative substitute source of gas available (1) **Application** • Gas prices have risen (1) • Supply of gas has fallen in 2021 (1) **Analysis** 1 mark for linked development e.g. less availability means gas suppliers are unable to respond to changes in the market price (1) in the long-run firms can respond (1)	**(3)**

Question Number	Answer	Mark
2(b)	**The only correct answer is C** ***A*** *is not correct because a 10% increase in the price of gas would cause a much smaller increase in supply* ***B*** *is not correct because there is not enough information to say* ***D*** *is not correct because the supply of gas is more responsive to changes in price than the demand*	**(1)**

Question Number	Answer	Mark
3(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition Allow reference to a firm, individual or country • Concentrates on one good/ service (1) • produces a narrow range of goods or services (1) • over time develops a cost advantage in producing these goods and services (1)	**(1)**

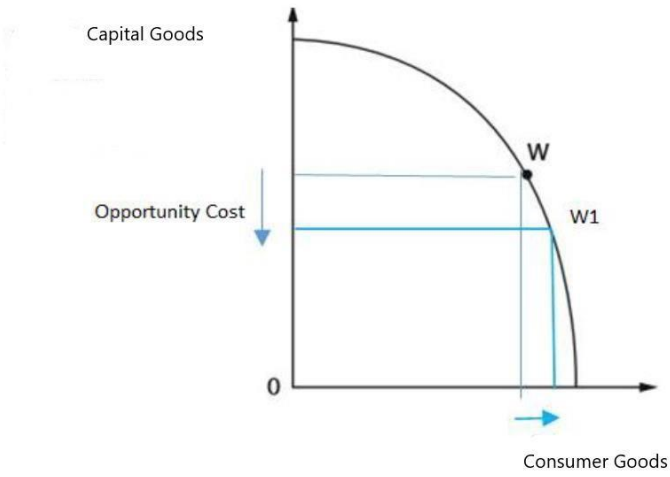
Question Number	Answer	Mark
3(b)	**The only correct answer is A** ***B*** *is not correct because 'supply chain disruption is the most important issue facing governments' is a normative statement* ***C*** *is not correct because 'the free market leads to the best allocation of resources' is a normative statement* ***D*** *is not correct because 'the government should increase healthcare spending' is a normative statement.*	**(1)**

Question Number	Answer	Mark
3(c)	**Knowledge 1 Analysis 1** **1 mark for advantage and 1 mark for linked development** • Specialisation increases the size of the market (1) • Gives opportunities to reduce unit costs (1) • Increased or decreased quality due to specialisation (1) • Allows for increased productivity within a particular product/ market(1) and ultimately increased profits (1)	**(2)**

Question Number	Answer	Mark
4(a)	**Knowledge 1, Application 1 and Analysis 1** **Knowledge/understanding** 1 mark for reason Possible answers include: • Firms will aim to maximise profits (1) • Helps to ration demand (1) **Application** • For reference to the stem e.g. 'shortages of crisps, petrol and other items' (1) • 'businesses increase prices' (1) • **Analysis** Consumers bid-up prices (1) **NB Diagram showcasing excess demand can earn either 1 application and/ or 1 analysis mark**	**(3)**

Question Number	Answer	Mark
4(b)	**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
5(a)	**Knowledge 1 Application 1** **Knowledge/understanding** 1 mark for definition, e.g. A mixed economy means that part of the economy is left to the free market and part of it is managed by the government (1) Public and private sectors existing within the economy (1) **Application** 1 mark • 11.7 million jobs were furloughed during the global health crisis (1) • Costing the UK Government £70 billion (1) • '80% wages paid by the government 80% of their wages/. Some private sector employers continued to pay the remaining 20%' (1)	**(2)**

Question Number	Answer	Mark
5(b)	**Application 1** Opportunity cost relating to higher production of consumer goods must result in a fall in capital goods – this must be clearly highlighted on the curve The diagram below earns 1 mark  	**(1)**

Question Number	Answer	Mark
5(c)	**The only correct answer is A** ***B*** *is not correct because 'price acts as a signal to allocate resources' is an advantage of a free market economy* ***C*** *is not correct because 'price controls cause shortages of goods' is a disadvantage of a command economy* ***D*** *is not correct because 'the profit motive gives firms the incentive to be more efficient' is an advantage of a free market economy*	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge** 1 mark for understanding the positive relationship between price increases and total revenue when PED is inelastic **Application** 2 marks for using data e.g. • price elasticity of demand for market is -0.6 (1) • Netflix's subscriber base 'has proven highly inelastic' (1) □ 3% of customers in a survey said they would cancel their subscription after Netflix's latest price rise (1) **Analysis** PED is highly inelastic (1) so firms are able to increase prices for streamed television services without a fall in total revenue (1) 10% rise in price causes a 6% fall in quantity demanded (1) this may be shown using a diagram (1+1)	**(5)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2 Analysis 2** **Knowledge/understanding** Identification of two separate external benefits e.g. • Provision of unbiased information (1) • High quality programmes (1) • Educational benefits (1) • Reduce information gaps in markets (1) **Application** 2 marks for, e.g. • 'to provide impartial news and information' (1), • 'to show the most creative, highest quality and distinctive televised content' (1) • 'to support learning for people of all ages' (1) • 'quality programming' (1) • 'content for minority groups' (1) **Analysis** Linked development of why public service broadcasting creates external benefits e.g. consumption of public service broadcasting (1) raises educational levels which are expressed in terms of higher productivity and are manifest in higher wages, profits and per capita GDP (1) **Award up to 3 marks for each external benefit**	**(6)**

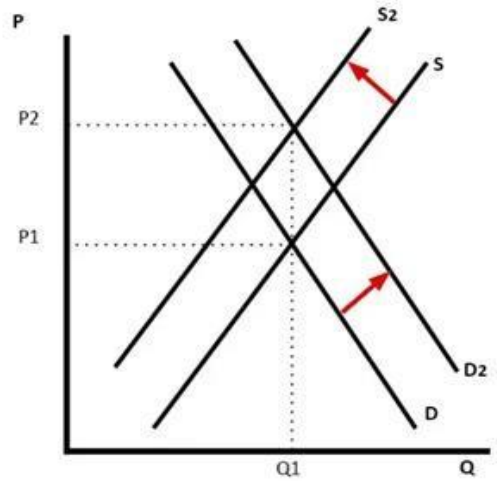
Question Number	Indicative content	Mark
6(c)	**Knowledge 2, Application 2, Analysis 2** • Identification of broadcasting as a public good having the qualities of non-rivalry and non-excludability • Broadcasting is non-rivalrous because one person's consumption of the service does not interfere with another person's consumption • Broadcasting is non-excludable because a TV aerial or broadband router is all that is required to access services • Public service broadcasting such as the BBC is freeto-air funded partially by the TV licence • The marginal cost of providing a pure public good to an extra user is zero, and this implies that, in order to achieve allocative efficiency, the charge for the product should be zero • Private sector businesses are unlikely to consider providing pure public goods because they will not be able to make any profit at a zero price, and many consumers can take a free ride on such goods because of non-excludability	**(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.

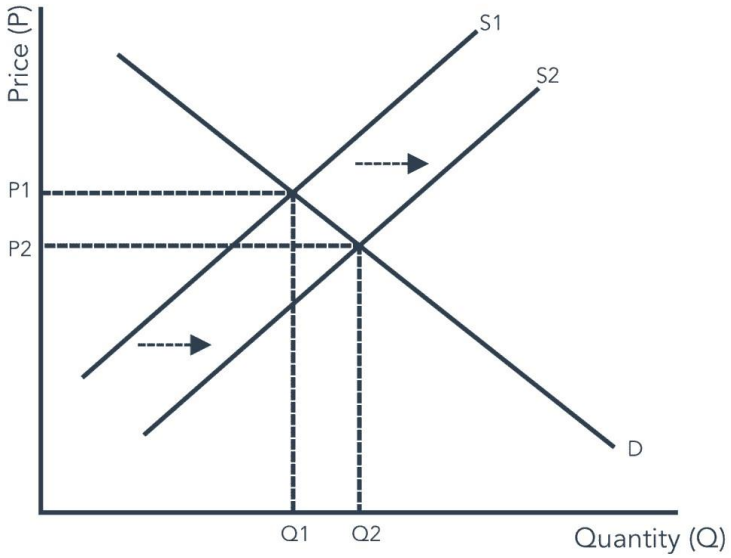
Question Number	Answer	Mark
6(c) continued	**Evaluation 4** • Public service broadcasting faces enormous challenges as the industry experiences a technological revolution. Most of the UK's 25 million TV homes have access to multi-channel services such as Freeview digital terrestrial service. A large number have access to Sky TV, Netflix and the other subscription services • Digital broadcasters can now exclude non-payers using set-top boxes. The BBC and ITV broadcasting services continue to be completely non-rival and it is this that really matters in the context of the services that the BBC provides • Questioning the extent of the effect over time. How significant is this? • Possible perception that some paid for television content/ license fee cost means service is in essence regressive, excluding those on lower incomes • Quasi public goods as not fully non-excludable and also element of rivalry due to caps on sharing of accounts • Judgement should focus on how important this effect is **NB KAA can be treated as Evaluation and vice-versa**	**(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** **Knowledge/understanding** 2 marks for e.g. A substitute good is one which has rivals in consumption / 'competitive demand' / A good that can be replaced by another to satisfy a want(1) A complementary good is one which is consumed with another good or service/ A good where the demand increase of one good causes an increase in demand of a related good/ service (1) **Application** 2 marks for, e.g. Netflix and Disney+ are substitute goods (1) Flatscreen televisions are consumed with streamed television services (1)	**(4)**

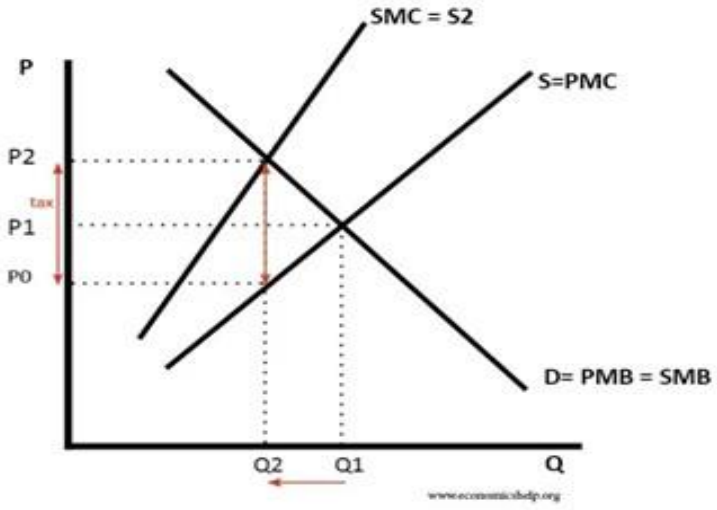
Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Reasons why the market price within the streaming television content is rising; Reasons causing demand to shift; • The demand for streamed services has increased significantly because of quality content • Lockdowns have increased demand as people watched much more television whilst at home. • Since the end of the first quarter of 2014 to the end of 2021, Netflix has grown its U.S. subscriber base by 70%. Its subscription price for its most popular plan is now 62% higher than it was in the first quarter of 2014 • The supply of streamed services has increased with competition from Amazon prime and Disney+. The cost of gaining new subscribers has increased significantly Reasons causing supply to shift; • New content is expensive and has increased the costs of content producers. 'The costs of providing streaming television content have risen. • Consumers now expect original content, for example Stranger Things which costs around £10 million an episode to make'. • 'Furthermore, advertising in a saturated market is expensive' causing firms costs to increase **NB For Level 3 KAA one relevant demand and supply diagram is required showing D or S shift/ or both**  	**(9)**

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

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** • Discussion of the impact of demand and supply factors upon the price of streaming services • Discussion of 'saturation' may mean that prices will start to fall as number of substitute services, such as Apple TV, continues to increase • Discussion of the timescale under consideration. i.e. whether subscribers will continue to tolerate rising prices • Much depends on the PED and YED of streamed services and how high prices will affect demand • Diagram demonstrating understanding of increased competition could result in falling prices 	**(6)**

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

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6** Define government intervention Government intervention is regulatory action taken by government that seek to change the decisions made by individuals, groups and organisations about social and economic matters. The extracts contain examples of the external costs of producing and consuming streamed content and the market failure associated. • The carbon footprint produced by fans watching a month of Netflix's top 10 global TV hits is equivalent to driving a car to Saturn • Every activity in the chain required to stream video, from the use of huge data centres and transmission over Wi-Fi and broadband to watching the content on a device, requires electricity. The majority of this is generated by emitting greenhouse gases Policies should target specific issues • Use of a tax on usage to increase costs for subscribers and to reduce the over consumption/ production • The imposition of a carbon tax is intended to internalise these externalities. The final price of the good should include the external costs and not just the private cost. Those who cause environmental costs should be made to pay the full social cost of their actions	**(14)**

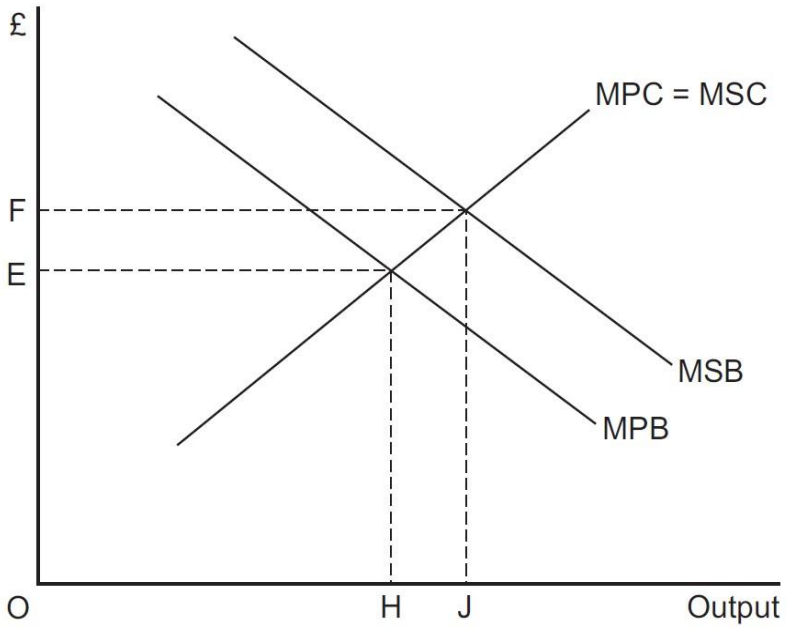


- The tax shifts the supply curve from S to S2. With the tax, consumers now face the full social cost (SMC). Quantity falls from Q1 to Q2. Q2 is socially efficient because social marginal cost = social marginal benefit
- Alternatives such as provision of information may be used to inform subscribers of the issues being caused and reduce the asymmetric information problem
- The focus of any government intervention could encourage alternative forms of entertainment and recreation
- Improve information on the environmental effects or to use regulation to limit viewing hours for individuals

Knowledge, application and analysis		
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** Effectiveness of policies used 'in a free market dominated by US firms' Intervention – tax • Production may shift to countries with no or lower carbon taxes. (so-called 'pollution havens') This can give developing countries an incentive to encourage production processes which cause pollution, i.e. there is 'outsourcing' of pollution • The cost of administrating the tax may be quite expensive reducing its efficiency • It is difficult to evaluate the level of external cost and how much the tax should be • Possibility of tax evasion. Higher taxes may encourage firms to hide carbon emissions • If demand is price inelastic, the tax may have to be very high to reduce demand significantly. In the short term, firms may not feel they have many alternatives. Though, over time, demand will become more elastic as more alternatives are generated • Impact on income inequality/fairness/impact on poorer communities Other methods can be discussed including; Regulation of number of hours of content watched by individuals Subsidies of more energy efficient devices from which to consume content	**(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** The free-market approach to providing television content is based on subscription to paid services such as Netflix and advertising-funded commercial television stations Broadcasting has historically been provided publicly, financed through a mixture of television licence fees, appropriations from general taxation, and advertising Negatives with the free market approach; • Market provision leading to excessive advertising levels. Excessive advertising is an issue with commercial television • Under provision of resources to programming and whether these resources be used to produce appropriate programming • Left to the market alone there will be under-consumption of public service broadcasting. This can be illustrated through an externalities diagram:	**(14)**
	 The diagram below shows the marginal private benefit (MPB) and marginal social benefit (MSB) curves and the marginal private cost (MPC) and marginal social cost (MSC) curves for public service broadcasting	

	• The external benefits of public service broadcasting are social benefits that spillover to benefit others in the society and future generations. These are seen in the public purposes of the BBC's Charter • Government intervention can be used to ensure that the optimum quantity of provision, J, is consumed rather than the free market outcome at H	

Knowledge, application and analysis		
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	Answer	Mark
6(g) continued	**Evaluation 6** Arguments in favour of the free market approach include: • Charging for usage allows content providers to improve the quality of their services. The 'streaming wars' are generating innovation and improved customer satisfaction • The greater the number of subscribers the more easily content providers can spread the costs of programming, leading to reduced prices • Greater efficiency when compared to public service provision Problems of public service broadcasting include: • There is a significant issue surrounding the funding of public service broadcasting. The five public purposes of the BBC's Charter are expensive to fulfil. • Content is expensive to create. The licence fee is seen as problematic because it is a regressive form of taxation, with everyone paying the same fee regardless of their income • As technology develops, it become even harder to sustain a compulsory licence fee when people have moved predominantly to alternative sources of information through the internet, digital channels and smart phones	**(6)**

Evaluation		
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.

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL, United Kingdom