

Pearson
Edexcel

Mark Scheme (Results)

October 2020

Pearson Edexcel GCE
In Economics A (8EC0)
Paper 1: Introduction to Markets and Market Failure

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General Marking Guidance

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

Question Number	Answer	Mark
1(a)	**Knowledge 1** **Knowledge/Understanding** 1 mark for definition, e.g. A free market economy refers to an economic system where the prices of goods and services are set freely by the forces of supply and demand (1) or without intervention by the government (1)	**(1)**

Question Number	Answer	Mark
1(b)	**The only correct answer is D** ***A*** *is not correct because this is the incentive function* ***B*** *is not correct because this is the signalling function* ***C*** *is not correct because a rise in price will reduce the shortage*	**(1)**

Question Number	Answer	Mark
1(c)	**Knowledge 2** **Knowledge/understanding** 1 mark for one reason. Possible answers include: • Competitive markets responsive to consumers (1) no competition in command economies to ensure firms are efficient (1) • Market prices transmit information between buyers and sellers (1) no need for costly bureaucracy (1) • Reduces risk of government failure (1) as governments do not know what is demanded (1)	**(2)**

Question Number	Answer	Mark
2(a)	**The only correct answer is D** ***A*** *is not correct because the concept explored is PED not YED* ***B*** *is not correct because as unemployment falls fewer people will use buses* ***C*** *is not correct because XED is concerned with the relationship between complements or substitutes*	**(1)**

Question Number	Answer	Mark
2(b)	**Knowledge 1, Application 1 and Analysis 1** **Knowledge/understanding** 1 mark for reason Possible answers include: • Recognition that the lower the PED the less price sensitive the product is (1) quantity demanded does not change significantly with price (1) **Application** • If, for example, a product with a PED of -0.1 had a 10% price rise, sales volume would fall by 1% (ceteris paribus) (1); so the 10% higher price per unit would far outweigh the 1% reduction in units sold (1) **Analysis** • The lower a product's price elasticity, the easier it is to boost revenue by increasing the price (1) if the firm raises its price it will increase the value of its sales (1)	**(3)**

Question Number	Answer	Mark
3(a)	**The only correct answer is C** ***A*** *is not correct because the supply curve shift has been ignored* ***B*** *is not correct because this is the cost to the consumer* ***D*** *is not correct because this is the total amount received by the producer*	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/Understanding** 1 mark for identification of opportunity cost e.g. the next best alternative forgone. **Application** 1 mark for specific reference to government spending e.g. schools and hospitals. **Analysis** 1 mark for analysis of problem e.g. the economic and social case for a subsidy should be judged carefully on the grounds of efficiency and fairness. Government subsidies inevitably carry an opportunity cost and in the long run there might be better ways of saving energy.	**(3)**

Question Number	Answer	Mark
4(a)	**The only correct answer is C** ***A*** *is not correct because* OP_1HQ_1 *is the total cost of the product plus tax revenue producers' share of the tax* ***B*** *is not correct because* P_2P_1HJ *is the consumers' share of the tax* ***D*** *is not correct because* P_3P_2JK *is the producers' share of the tax*	**(1)**

Question Number	Answer	Mark
4(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for correct definition of specific tax e.g. specific tax is a set amount per unit of the product sold **Application** 1 mark for e.g. of specific tax such as: • fuel duty • alcohol and tobacco duty • gambling duties • air passenger duty • sugar tax **Analysis** 1 mark for linked development e.g. to internalise the externalities accruing to the consumption of products causing external costs (1). Reference to 'sin taxes' (1). Raising revenue (1).	**(3)**

Question Number	Answer	Mark
5(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. This occurs when government intervention in the economy causes a net welfare loss/decline in economic welfare.	**(1)**

Question Number	Answer	Mark
5(b)	**Knowledge 2** **Knowledge** 1 mark for reason and 1 for linked development Possible answers include: • Positive externalities (1) resulting from people using railways rather than roads (1) • Risk/imperfect information (1) if the project is undertaken by the private sector it may be less likely to happen (1)	**(2)**

Question Number	Answer	Mark
5(c)	**The only correct answer is A** ***B*** *is not correct because this would cause the demand for rail travel to shift to the left* ***C*** *is not correct because this would cause the supply curve to shift to the right* ***D*** *is not correct because this would cause the supply curve to shift to the right*	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 1, Application 2, Analysis 2** **Knowledge** 1 mark for understanding/formula of price elasticity of demand i.e. the responsiveness of quantity demanded to a change in price **Application** 2 marks for using data e.g. • reference to fees e.g. £9 250 (1) or PED e.g. -0.5 (1) • 825% increase in fees (2) **Analysis** PED is inelastic (1) so government and universities know that students are prepared to accept higher fees (1) Students are not price sensitive (1) so the level of fees is perhaps less important than other issues e.g. fairness of fees for different courses (1)	**(5)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** • The statement is concerning because people from poorer backgrounds are less likely to apply to university in the first place (Extract A, Figure 3), so when they do go and drop out we are failing to maximise the use of scarce resources • Universities are trying to increase accessibility but failing to keep poorer students. This means that graduates are increasingly likely to be from wealthier families and poorer student are leaving because of concern over high levels of debt • Would this happen if England had low or no tuition fees like Germany? • Candidates may draw a PPF showing the country operating within the frontier because as a nation we are not making the most of our labour force • Opportunity cost. Government and universities spending money/resources that could have been spent elsewhere	**(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(b) continued	**Evaluation 4** • Extract A refers to the fact that 'Students from all backgrounds are more likely to go to university than ever before' • Poorer students are continuing to attend university and various schemes exist to support them • Questioning the extent of the effect over time. How significant is this? Are tuition fees a significant contributor to drop-out rates? • 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(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** • Identification of one external and one private benefit: tax revenue (external); higher earnings (private) (1+1) **Application** 2 marks for, e.g. • 'the government will benefit greatly from additional tax revenues' (1) • 'the rest will be in the form of their extra spending power' (1) **Analysis** Linked development of why the education specifically benefits producers e.g. higher productivity enable firms to achieve lower costs and, therefore, lower prices (1+1) **Award up to 3 marks for each benefit**	**(6)**

Question Number	Answer	Mark
6(d)	**Knowledge 2, Application 2** Formula for percentage calculation (new-old)/old x 100. (1) (102357 – 45418)/45418 x 100 (1+1) = Accept any figure between 125 and 126 **NB Award 4 marks for a correct answer of 125%. Award up to 3 marks for correct working.**	**(4)**

Question Number	Answer	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** • The top five subjects generate earnings significantly above the average when compared to non-graduates whereas the bottom five reduce earning potential. Charging different fees would allow universities to maximise their own earning potential • Students would pay because they can clearly see that the benefits outweigh the costs • Some subjects cost more to staff, so they should cost more, allowing less expensive degrees to be reduced in price • Provide improved courses / give students better educational experience/attract more domestic students • Provide more funds to look after disadvantaged students • Improved courses will attract overseas students • Allow universities to cover the true cost of some courses. Examine variable fees in terms of allocation of resources • Discuss the consumer pays principle. Consumers i.e. students who benefit from university education (premium of £10 000) should pay/contribute to the cost? • Discuss the government / taxpayer role in financing higher education • Long term supply side benefits e.g. more skilled work force	**(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	Answer	Mark
6(e) continued	**Evaluation 6** • Difficult to quantify exactly what should be charged for what subjects – figures can change over time • May be problematic for those from poorer families, who may see the higher cost of certain degrees as prohibitively expensive • Discussion of the concept of a 'broader education' – are degree choices simply about money. A creative arts subject may reduce earning potential when compared to the average but such subjects are essential for any liberal education	**(6)**

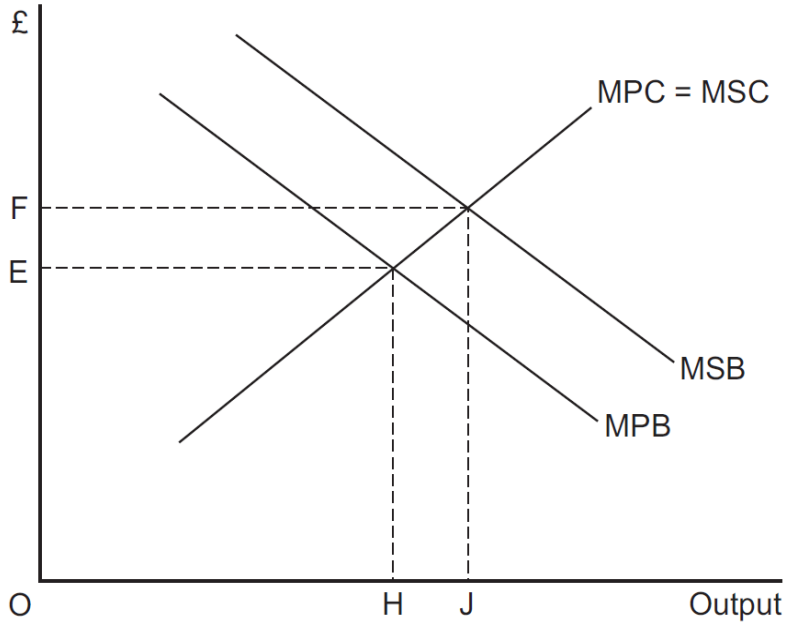
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	**1–2**	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	**3–4**	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative 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	Answer	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6** The extracts contain plenty of examples from an international context. • Re-designing the structure of fees in England according to the 'value of the degree' • This could be done by subject, institution etc. • Cutting fees for poorer groups and introducing maintenance grants • The US model where top institutions charge high fees and state universities much lower ones • The European model of lower fees • A graduate tax as in Germany • Discussion of efficient/inefficient allocation of resources • Education as a merit good • External benefits application (with appropriate diagram) • Impact on income inequality/fairness/impact on poorer communities • Free market system will discourage 'fringe degrees' and focus on degrees that offer more vocational benefits that pay higher salaries (Good or bad?) Candidates may use supply and demand analysis to develop the idea of different subjects charging different fees.	**(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	Answer	Mark
6(f) continued	**Evaluation 6** England is similar to the U.S. and quite different from Europe • Good evaluation will consider the strengths and weaknesses of each method • European approaches recognise the increase in graduate earning potential and the much higher taxes that graduates will pay in the future. They are much cheaper at the point of use and encourage applicants from poorer families. The taxpayer pays the majority of the cost at the point of use • U.S. and English approaches recognise that the consumer of education must pay at the point of use and be prepared to make a personal investment in future earning power. Students are encouraged to consider whether their degree is worth the cost. If creative arts confer no benefits, then why study them?	**(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	Answer	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6** Education creates positive externalities in consumption. Left to the market alone there will be under-consumption of education. This can be illustrated through an externalities diagram:  • 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 higher education • The external benefits of education are social benefits that spillover to benefit others in the society and future generations. These include lower government health, welfare, and prison costs; strengthened democracy, human rights, political stability, and social capital; less crime and poverty; environmental benefits; better international competitiveness; new ideas and diffusion of technology • Government intervention can be used to ensure that the optimum quantity of education, J, is consumed rather than the free market outcome at H	**(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	Answer	Mark
6(g) continued	**Evaluation 6** • There is a significant issue of measurement where externalities are concerned • Many of the social benefits identified above are 'vague' and ambiguous • As a result there can be considerable 'government failure' in education • Understanding of government failure as intervention that results in a net welfare loss; how is government supposed to know which degree level subjects are in demand in the future? • Causes of government failure: o distortion of price signals o unintended consequences o excessive administrative costs o information gaps	**(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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