Pearson Edexcel

# Mark Scheme (Results)

## October 2022

Pearson Edexcel International Advanced Level
In Economics (WEC11) Paper 01
Unit 1: Markets in action

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October 2022
Question Paper Log Number P72413A
Publications Code WEC11_01_2210_MS
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**General Marking Guidance**

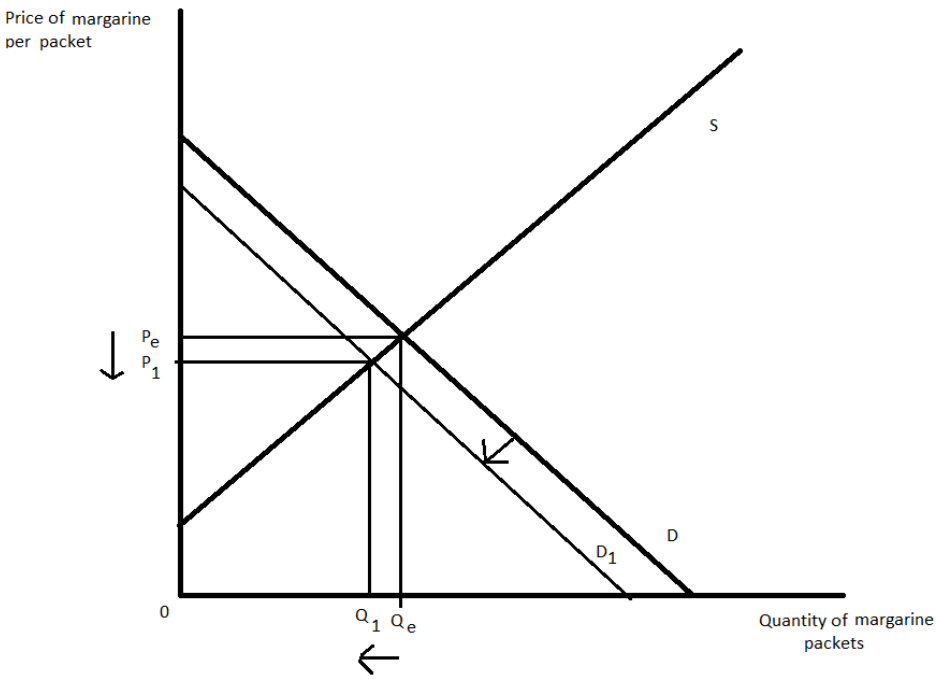
- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should 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.

**Section A**

| Question | Quantitative skills assessed | Answer | Mark |
|---|---|---|---|
| 1 | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms | **The only correct answer is C**<br><br>**A** is not correct because this occurs when there is increasing marginal utility<br>**B** is not correct because diminishing marginal utility is not related to the supply curve<br>**D** is not correct because diminishing marginal utility means the utility will rise at a slower rate as more of the product is consumed | **(1)** |
| 2 | **QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms | **The only correct answer is B**<br><br>**A** the largest percentage decline in the use of the non-renewable resource was in the USA<br>**C** is not correct because in all countries the use of the non-renewable resource decreased<br>**D** is not correct because in all countries the use of the renewable resources increased | **(1)** |
| 3 | **QS8**: Make calculations of elasticity and interpret the result<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms | **The only correct answer is A**<br><br>**B** is not correct because the data provided are for cross elasticity of demand and not income elasticity of demand<br>**C** is not correct because unrelated goods would have an XED of zero<br>**D** is not correct because complements have an XED which is negative | **(1)** |
| 4 | **QS4**: Construct and interpret a range of standard graphical forms<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms | **The only correct answer is C**<br><br>**A** is not correct because point Z is obtainable because it is inside the PPF | **(1)** |

| | | | |
|---|---|---|---|
| | | **B** is not correct because at point Y there are fewer capital goods so the growth rate will be slower.<br>**D** is not correct because the movement to Y results in a gain of 25 consumer goods | |
| **5** | | **The only correct answer is D**<br><br>**A** is not correct because this is an example of poor computation<br>**B** is not correct because they are more likely to switch if they do not feel valued<br>**C** is not correct because this is an example of herding/being influenced by others' behaviour | **(1)** |
| **6** | **QS4**: Construct and interpret a range of standard graphical forms<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms | **The only correct answer is B**<br><br>**A** is not correct because this is the producer incidence<br>**C** is not correct because this is the tax revenue earned by the government/includes both consumer and producer incidence<br>**D** is not correct because this multiplies the Sol 0.60 by the wrong quantity (380 000) | **(1)** |

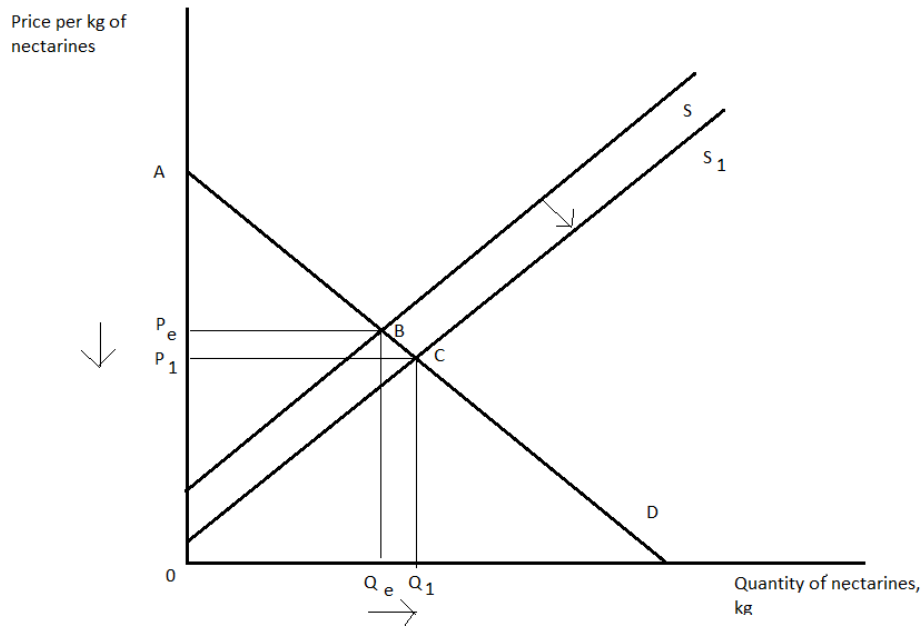
**Section B**

| Question | Draw a diagram to illustrate the likely impact of this increase in real incomes on the equilibrium price and quantity of margarine.<br><br>**Answer** | Mark |
|---|---|---|
| 7 | **Knowledge 1, Application 3**<br>Quantitative skills assessed:<br>**QS4**: Construct and interpret a range of standard graphical forms<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge**<br><br>1 mark for showing knowledge on diagram<br>• Original supply and demand and correctly labelled axes **(1)**<br><br>**Application**<br>Up to 3 marks for the following information included on diagram:<br>• Leftward shift of demand **(1)**<br>• Original equilibrium price and quantity **(1)**<br>• New equilibrium price and quantity **(1)**<br><br>  <br> | **(4)** |

| Question | With reference to Lake Chad, explain the difference between a free good and an economic good.<br><br>**Answer** | **Mark** |
|---|---|---|
| **8** | **Knowledge 2, Application 2**<br><br>Quantitative skills assessed:<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge**<br>1 mark for understanding of 'free good', e.g.<br>- Free good is a resource which is so abundant that its availability is not a constraint on economic activity/in unlimited supply/a good with no opportunity cost/good does not have a price **(1)**<br>1 mark for understanding of 'economic good', e.g.<br>- Economic good is a good that derives utility/a good with scarcity and therefore an opportunity cost/scarcity means people may be willing to pay for it **(1)**<br><br>**Application**<br>1 mark for reference to Lake Chad as a free good in 1960, e.g.<br>• In 1960 water from the lake was a free good/lake used to provide irrigation to farmers for their crops suggesting free good **(1)**<br>1 mark for reference to Lake Chad as an economic good in 2017, e.g.<br>• By 2017 the farmers could no longer use the lake for irrigation suggesting it is an economic good/has an opportunity cost **(1)** | **(4)** |

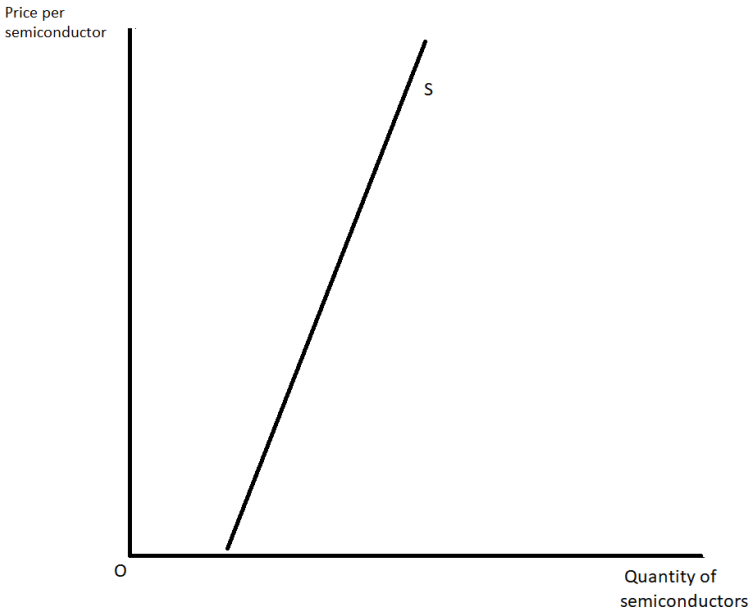
| Question | Explain **one** advantage to a car manufacturer of using the division of labour to organise production.<br><br>**Answer** | Mark |
|---|---|---|
| 9 | **Knowledge 1, Application 1, Analysis 2**<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge and Analysis**<br>1 mark for understanding division of labour e.g.:<br>• where production is broken down into tasks and each worker specialises on one task **(1K)**<br>1 mark for one advantage of using the division of labour and up to 2 marks for linked expansion<br>• increase in productivity **(1K)** as each worker is able to produce more output **(1AN)** which helps a car manufacturer to produce cars more cheaply than his competitors **(1AN)**<br>• decreased unit costs/decreased costs of production **(1K)** as each worker is able to produce more goods whilst receiving the same pay **(1AN)** enabling a car manufacturer to lower his prices/increase profit margins **(1AN)**<br>• time saving **(1K)** as workers do not need to keep changing tools **(1AN)** and can spend more time focused on production **(1AN)**<br>• workers become more proficient at one skill **(1K)** as they spend so long on the task that they become experts **(1AN)** and this helps with the speed of them completing the task **(1AN)**<br>• less training required **(1K)** as workers only need to be trained to do one task/rather than training in whole production process **(1AN)** so the car manufacturer experiences reduced costs of training staff **(1AN)**<br>• workers can focus on tasks that suit their skills **(1K)** which means they are more likely to complete jobs they enjoy **(1AN)** and are more likely to be motivated **(1AN)**<br>**Application**<br>1 mark for applying to Henry Ford car company or a car manufacturer, e.g.:<br>• one worker will focus on the tyres/windscreens/chassis/steering wheel/engine/painting/each worker will add a different component/part to the car/each worker moves from producing a whole car to one part **(1AP)** | **(4)** |

| Question | *Ceteris paribus*, calculate the price elasticity of demand for gas from British Gas. Show your workings.<br><br>**Answer** | **Mark** |
|---|---|---|
| **10** | **Knowledge 1, Application 3**<br>Quantitative skills assessed:<br>**QS8:** Make calculations of elasticity and interpret the result.<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge**<br>1 mark for definition/the formula for price elasticity of demand<br>% change in quantity demanded<br>% change in price<br>**OR**<br>1 mark for identifying that the good has relatively price inelastic demand/The PED is inelastic as a fall in price results in a smaller percentage change in quantity demanded **(1)**<br><br>**Application**<br>Up to 3 marks for calculations:<br>• Original quantity<br>17 000 000 + 350 000 = 17 350 000 **(1)**<br>• Change in quantity ÷ original quantity x 100<br>-350 000 ÷ 17 350 000 x 100 = -2.017% **(1)**<br><br>% change in quantity demanded<br>% change in price<br>• - 2.017 ÷ 22 = -0.092 **(1)**<br><br>**NB: if correct answer (e.g. -0.09168182) is given, award full marks regardless of working.**<br>**NB: award 3 marks if negative sign is omitted/percentage sign added to final answer**<br>**NB: award 3 marks if negative sign included but error in calculation** | **(4)** |

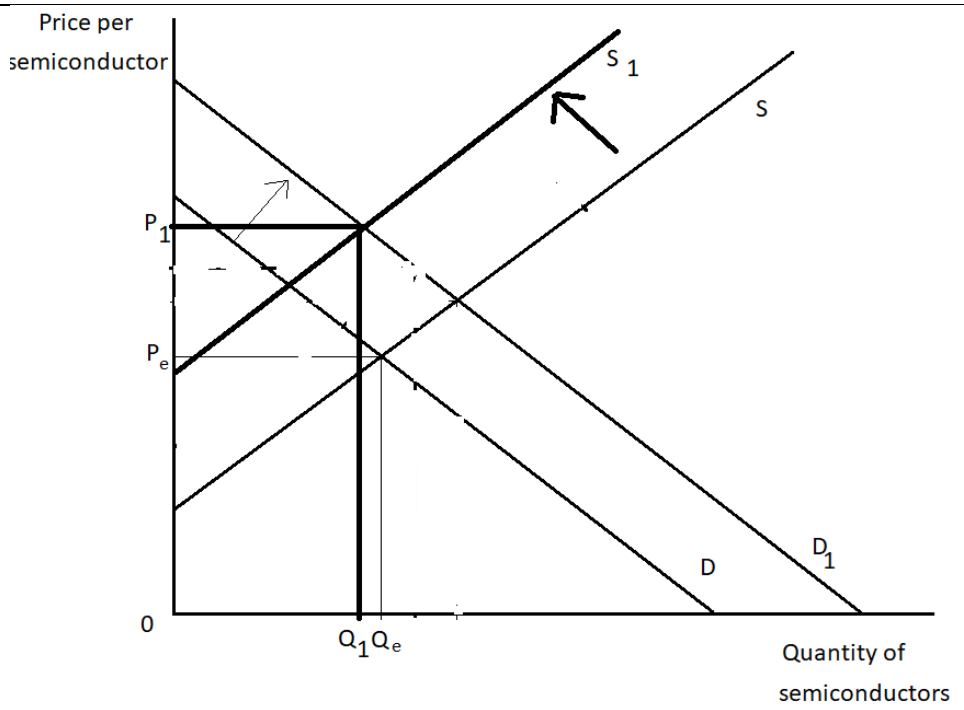
| Question | Explain the likely impact of this change in price on consumer surplus in the market for nectarines.<br>Illustrate your answer with an appropriate diagram.<br>**Answer** | Mark |
|---|---|---|
| 11 | **Knowledge 1, Application 1, Analysis 2**<br>Quantitative skills assessed:<br>**QS4**: Construct and interpret a range of standard graphical forms<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge**<br>• 1 mark for definition of consumer surplus e.g.:<br>The difference between the price consumers are willing to pay and the price they pay/gap between the equilibrium price and demand curve **(1)**<br><br>**Application**<br>1 mark for the following diagram, showing supply shifting right<br><br>  <br><br><br>**Analysis**<br>1 mark for the original consumer surplus<br>• $ABP_e$ **(1)**<br>1 mark for the new consumer surplus<br>• $ACP_1$ **(1)**<br>**OR**<br>2 marks for the change in consumer surplus<br>• Consumer surplus increases **(1)** by $BCP_1P_e$ **(1)** | **(4)** |

**Section C**

| Question | Define the term 'external costs' (Extract C, line 11).<br><br>**Answer** | Mark |
|---|---|---|
| **12 (a)** | **Knowledge 2**<br>Up to 2 marks for defining 'external cost', e.g.:<br><br>• Costs to third parties **(1)**<br>• Negative **(1)** impact on third parties **(1)**<br>• Where MSC > **(1)** MPC **(1)**<br>• Economic agents not involved in the transaction **(1)** experience costs **(1)**<br>• Accept explicit examples from Extract C e.g. causes cancers, contaminated waste water **(1)** | **(2)** |

| Question | With reference to the second paragraph of Extract A, explain the phrase 'the supply of semiconductors is inelastic.'<br><br>**Answer** | Mark |
|---|---|---|
| **12 (b)** | **QS8:** Make calculations of elasticity and interpret the result.<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge 2 Application 2**<br><br>**Knowledge**<br>2 marks for understanding of inelastic supply:<br>• Inelastic supply is where a change in price results in a less than proportionate change in quantity supplied **(1)**<br>• Where PES is between 0 and 1 **(1)**<br>• Supply cannot respond quickly to a change in price **(1)**<br>• Percentage change in price is greater than the percentage change in quantity supplied **(1)**<br>• Diagram to show (perfectly or relatively) inelastic supply **(1)**<br>  <br><br>**Application**<br>Up to 2 marks for application:<br>• Operating at full capacity **(1)**<br>• Struggled to respond to increased demand **(1)**<br>• Semiconductor manufacturers will take time for additional capacity to become operational **(1)** | **(4)** |

| Question | With reference to Extract A, analyse **two** reasons why semiconductor prices 'increased on average by 20%'.<br>Illustrate your answer with a supply and demand diagram.<br><br>**Answer** | Mark |
|---|---|---|
| **12 (c)** | **Knowledge 2, Application 2, Analysis 2**<br>Quantitative skills assessed:<br><br>**QS4**: Construct and interpret a range of standard graphical forms<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge**<br>Up to 2 marks for the diagram showing:<br>• Original supply, demand, equilibrium price and quantity **(1)**<br>• Final equilibrium with both curves shifted correctly showing higher price **(1)**<br><br>**Analysis**<br>1 mark for analysis linked to supply e.g.:<br>• Costs of steel and copper increased **(1)**<br>1 mark for analysis linked to demand e.g.:<br>• Global health crisis led to increased demand for semiconductors used in production of laptops/tablets/smartphones **(1)**<br><br>**Application**<br>2 marks for diagram:<br>• Rightwards shift in demand **(1)**<br>• Leftwards shift in supply **(1)** | |


Price per
semiconductor
S 1
S
P1
Pe
D
D1
0
Q1 Qe
Quantity of
semiconductors

**(6)**

| Question | With reference to Extract B and Figure 1, examine **two** likely effects of excess demand for semiconductors on car manufacturers.<br><br>**Answer** | Mark |
|---|---|---|
| **12(d)** | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms<br><br>**Knowledge 2, Application 2, Analysis 2, Evaluation 2**<br><br>**Knowledge, Analysis and Application**<br><br>1 mark for definition/understanding of excess demand<br>• Demand is greater than supply at the current price<br><br>Up to 2 marks for reference to Extract A, Up to 2 marks for identifying two impacts and up to 2 marks for linked explanations, e.g.:<br><br>• Car manufacturers waiting for semiconductors **(1AP)** so unable to complete customer orders (**1K)** leading to reputational damage as customers have to wait longer between ordering and receiving their cars **(1AN)**<br>• Volkswagen produced 100 000 fewer cars/GM shut down production/Japan's car production decreased 19% **(1AP)** with less cars supplied **(1K)** it leads to lower revenue/proft **(1AN)**<br>• Car manufacturers removed features requiring semiconductors **(1AP)** in order to be able to reduce the need for semiconductors **(1K)** which may disappoint customers as new cars might not have the features they expect leading to reputational damage **(1AN)**<br>• Shortage of cars led to increased price of new cars/people switched to used cars market where prices doubled **(1AP)** as car showrooms struggled to purchase new and used cars **(1K)** costs will increase and profits fall **(1AN)**<br>• Fall in revenue for car manufacturers in China estimated at $25.5 bn/Europe $13.4 bn/South Asia $9.3 bn/ Japan/South Korea $7.3 bn/ North America $5.2 bn **(1AP)** as quantity of sales of new cars sold falls **(1K)** car manufacturers are likely to employ fewer employees **(1AN)**<br><br>Award 1 mark for accurate excess demand diagram (1AN)<br><br>**Evaluation**<br>Up to 2 marks for evaluative comments (2+0 or 1+1), e.g.:<br>• Magnitude of impact- widespread affecting Volkswagen, GM, Japanese manufacturers/revenues reduced $100bn **(1+1)** | **(8)** |

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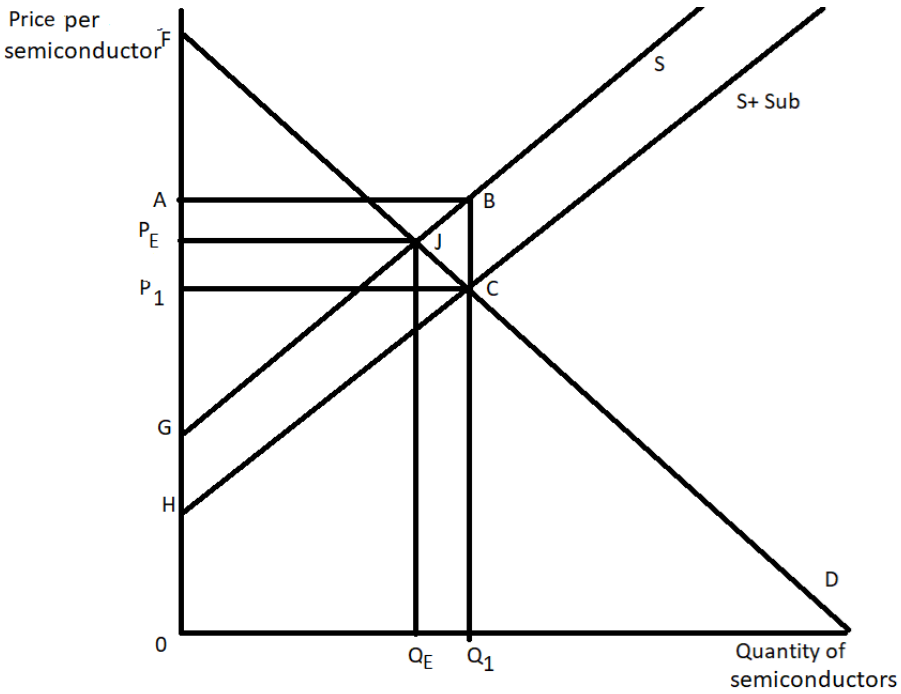
| | • Depends on how important semiconductors are in the production of cars as to how much of a delay there is **(1+1)**<br>• Depends on whether car manufacturers have stockpile of semiconductors which would enable them to increase production **(1+1)**<br>• Chinese manufacturers have suffered the largest loss in revenue suggesting semiconductor shortages affected some more severely **(1+1)**<br>• Increased semiconductor production will help resolve issues of excess demand **(1+1)** | |

| Question | With reference to Extract C and your own knowledge, discuss the possible microeconomic effects of the subsidies paid to semiconductor manufacturers in the USA.<br>Illustrate your answer with an appropriate diagram.<br><br>**Indicative content** |
|---|---|
| **12(e)** | **Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.<br>**Quantitative skills assessed**<br>**QS4**: Construct and interpret a range of standard graphical forms<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge, Application and Analysis (8 marks) – indicative content**<br>• Subsidy- cash grant paid to encourage production<br>• US Government increased subsidy from $0 between 2000-20 to $52 bn in 2021<br>• To reduce the reliance of US on imports of semiconductors- had increased 63% to 88%<br>• Increase the number of US semiconductor factories by at least 7<br>• Helps expand production capacity and reduce risk of car manufacturers having to stop production<br>• The subsidy will make US production more profitable/able to compete with Asian producers who have lower costs<br>• Subsidy- decreases costs of production<br>• Increases supply S to S+Sub<br>• Decreases price $P_E$ to $P_1$<br>• Quantity of semiconductors increase/increases quantity $Q_E$ to $Q_1$<br>• Increases government spending- $ABCP_1$<br>• Reference to incidence of the subsidy (consumer/producer)<br>• Consumer surplus increases $FJP_E$ to $FCP_1$<br>• Producer surplus increases<br>• Helps improve semiconductor supply enabling car companies to increase production<br>• Will be cheaper to produce products that use semiconductors<br>• Increases employment in semiconductor manufacturing in the USA<br>• Increased production generates external costs- cancer causing and water usage |

| | |
|---|---|
| | Diagram<br>  <br><br>**NB** Macroeconomic effects e.g. higher tax revenues leading to budget improvement would only achieve Level 1<br>**NB** Level 3 response requires a diagram<br>**NB** Positive microeconomic effects may be rewarded as KAA and negative effects as EV or vice versa |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material |
| Level 1 | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach, which has no chains of reasoning. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| Level 3 | 7–8 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using relevant examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

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| | **Evaluation (6 marks) – indicative content**<br>• Magnitude- $52 bn in USA<br>• Government spending creates an opportunity cost leaving less for other areas of the economy<br>• Benefits in terms of increased supply of semiconductors takes time as factories take three years to become fully operational<br>• Value of PED is important, if firms' demand for a particular brand of semiconductors is inelastic they may not demand semiconductors from new suppliers<br>• Time lag- short-run impact limited as it takes time to manufacture semiconductors so long-run before impact felt<br>• External costs associated with additional semiconductor manufacturing are difficult to quantify/measure |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| Level 1 | 1–2 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 3–4 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| Level 3 | 5–6 | Evaluation recognises different viewpoints and/or is critical of the evidence.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

**Section D**

| **Question** | Evaluate the advantages of a free market economy.<br><br>**Indicative content** |
|---|---|
| **13** | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.<br><br>**Knowledge, application and analysis (12 marks) – indicative content**<br>• Free market economies- where price mechanism/supply and demand determine resource allocation/where government has minimal involvement in decisions<br>• Hong Kong closest to free market- low tax rates, low government spending and the low level of business regulation<br>Advantages<br>• Incentives to work hard in order to increase incomes<br>• Profit incentive means firms have incentive to be efficient<br>• Consumers are free to choose the goods and services they desire<br>• Producers are free to create products to meet customer needs<br>• Firms are likely to use profits to develop new processes helping to reduce costs and improve efficiency/productivity<br>• Profits invested in innovative new products which better meet consumer needs<br>• Government failure avoided e.g.<br>  ○ surpluses & shortages resulting from price controls<br>  ○ information gaps meaning the intervention is not always the best option<br>  ○ can create unintended consequences such as smuggling<br>  ○ creates excessive administrative costs.<br>• No expensive central planning<br>• Competition between firms may help lower price and increase quantity of goods available<br>• Market forces (invisible hand) helps to clear the market when there is excess demand/excess supply/disequilibrium<br>• Disadvantages of command economy |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach which has no chains of reasoning. |
| **Level 2** | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

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|---|---|
| | **Evaluation (8 marks) – indicative content**<br>Disadvantages<br>• Underprovision of public goods- non-rivalry and non-excludability creates a free rider problem and private sector firms cannot generate profits- impacts on the provision of streetlights, roads, defence, sea defences<br>• Underprovision of healthcare/education- services with external benefits where people underestimate the benefit<br>• Overconsumption - people may consume goods ignoring external costs of their consumption e.g. pollution and congestion have negative impacts on third parties<br>• Private sector health care can be inefficient and expensive- US health insurance costs<br>• Can create inequality:<br>  ○ where the rich inherit and have more wealth<br>  ○ low skilled/unskilled/disabled/sick have low income with no support from the state in the form of welfare payments<br>  ○ free market may result in high levels of unemployment<br>• Large powerful firms can emerge that exploit customers by charging high prices and restricting output<br>• When demand is low unemployment may rise leaving some with no income<br>• Markets can be unstable:<br>  ○ Market bubbles can emerge and burst<br>  ○ Creates uncertainty for businesses<br>• Depends on the extent to which an economy acts as a free market economy- even Hong Kong still has taxes and regulation so is not a pure free market economy. |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| Level 1 | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| Level 3 | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

| Question | Evaluate the advantages of state provision of goods and services.<br>**Indicative content** |
|---|---|
| **14** | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.<br><br>**Knowledge, application and analysis (12 marks) – indicative content**<br><br>• State provisions is where government uses taxation to provide goods and services<br>• UAE- provides free education and healthcare, flood defences and world tallest lighthouse<br><br>**Advantages**<br>• Reduces the problem of underconsumption and production of goods with positive externalities- underconsumption as people underestimate the benefits of consuming a good- state provided free healthcare/free primary and secondary education<br>• Reduces the problem of overconsumption and production of goods with negative externalities- overproduction as firms ignore negative impact on third parties- government imposes indirect taxes on firms producing external costs<br>• Reduces the problem of underprovision of public goods- non-rival and non-excludable- free rider problem makes provision by the private sector unprofitable so government steps in e.g. lighthouse/flood defences<br>• Ensures safety of the public by preventing flooding and ships hitting rocks<br>• Reduces the problem of information gaps/Imperfect market information- information failure means consumers may under-consume goods such as health care and education so the government provides. State provides information to fill gaps- e.g. on impact of high sugar consumption<br>• Ensures provision for all including those on low incomes who would otherwise be unable to afford the goods/services<br>• May help to prevent exploitation of consumers by private monopolies<br>• Can increase the number that are employed in construction/in healthcare/education system |

| | |
|---|---|
| | Diagrams may be drawn to illustrate underproduction/overconsumption |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| Level 1 | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach, which has no chains of reasoning. |
| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| Level 3 | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| Level 4 | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

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|---|---|
| | **Evaluation (8 marks) – indicative content**<br><br>**Disadvantages**<br>• Government failure where there is a net welfare loss through:<br>  ○ information gaps<br>  ○ lack of incentives<br>  ○ unintended consequences<br>  ○ excessive administrative costs<br>  ○ moral hazard<br>• Government provision can be less efficient compared to the free market- lack of competition<br>• Opportunity costs associated with the government spending leaving less money for other priorities<br>• Less choice for consumers<br>• Reduction in freedom<br>• High levels of taxation to fund spending<br><br>**Other evaluation**<br>• It is difficult to place a value on the size of any external benefits/costs to know how much to provide<br>• Information failure is increasingly solved by the internet<br>• Magnitude of spending e.g. $136 million needs to judge this against the benefit of flood defences |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| Level 1 | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| Level 3 | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

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