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1st Paper of 4 (3 'Interim' and 1 'End of Theme')
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INTERIM PRACTICE PAPER (1)

for

Edexcel AS & A Level Economics A

Theme 1

Introduction to Markets and Market Failure

Interim Paper (on **1.1 Nature of Economics**)
Detailed Mark Scheme
Example Model Answers

Minimising Workloads, Maximising Performance

FOREWORD: Important - Read First

This resource contains the first paper of a set of 4 'Interim and End of Theme Papers' concerning **Theme 1: Introduction to Markets and Market Failure** of the **Edexcel AS and A Level Economics A** Specification. The full set of 4 papers can be purchased from APT's website: www.apt-initiatives.com, or individually from the TES website: www.tes.com/teaching-resources.

The full set of 4 papers has been constructed to enable students to be formally tested at various key points throughout their study of the theme, as well as upon completion. Hence, there are **3 'interim' papers** and **1 'end of theme' paper**, as follows:

- Paper 1 – concerns **Nature of Economics** (1.1 of the specification subject content).
- Paper 2 – concerns **How Markets Work** (1.2 of the specification subject content).
- Paper 3 – concerns **Market Failure AND Government Intervention** (1.3 and 1.4).
- Paper 4 – concerns **the entire theme - Markets and Market Failure** (1.1 to 1.4).

The full set of 4 question papers have been written to include questions that **test as many areas listed in the specification subject content** (published at the time of writing this resource) - **relating to Theme 1 - as possible**. An overview of economic topics / concepts tested in this particular paper is provided immediately after this 'Foreword' and before the question paper (on page iii below).

Question papers, mark schemes and answers have been written taking into account the **sample assessment material (SAM)** published by Edexcel for the launch of **the new AS Economics A specification (from 2015)**, as well as **the first actual exam paper for AS Paper 1** (June 2016). The style and format of APT's question papers and mark schemes are in line with these papers, with a few minor differences / additions considered beneficial for both teachers and their students. These are highlighted in the text that follows.

In line with Edexcel's SAM and the first exam paper for AS Paper 1, each question paper contains two sections: Section A, which consists of a range of multiple-choice and short-answer questions; Section B, which consists of one data response question broken down into a number of parts, including a choice of extended open-response questions (with students selecting one from two). Time to complete each paper is 1 hour 30 minutes, and there are 80 marks available.

The questions included in each paper **ensure students gain exam practice across Edexcel's four AS (and A Level) assessment objectives**.

As with the SAM and first exam paper for AS Paper 1, **calculation questions** are included that are **not limited to testing knowledge of economic formulae**, such as the calculation of elasticity; they may also **test and reward generic quantitative skills**, such as the ability to calculate percentage changes.

The question papers included in this resource pack provide **the same amount of space for students to write down answers as the first (June 2016) exam paper**, which is greater than the SAM (published at the time of writing).

Marks have been **weighted** according to **Edexcel's requirements at AS** - as detailed in the AS Specification (published at the time of writing). Hence, 28-30% of the marks are awarded for knowledge / understanding (A01), 28-30% for application of knowledge / understanding (A02), 20-22% for analysis (A03), and 20-22% for evaluation (A04). An assessment objective grid is provided after each mark scheme / set of answers which shows the total marks allocated for each assessment objective for each paper.

In order to make it easy to follow answers through to their completion and to mark students work, the mark schemes and answers provided in this resource **cite all 4 assessment objectives one after the other**, ie evaluation is cited immediately after knowledge, application and analysis, rather than being cited separately.

PTO...

For **questions requiring a calculation**, marks are awarded for demonstrating **knowledge of formulas / how to undertake a calculation**, as well as for selecting and **applying the source figures to arrive at the correct result**. This is **in line with Q6d of Edexcel's SAM for AS Paper 1** (published at the time of writing) rather than the actual examination paper, which seemed generous in its approach - awarding 4 marks for a single percentage change calculation. The **calculation questions and mark allocations** in future APT publications / new additions may, therefore, be something that are **subsequently adapted**, in light of **refinements made by examiners** to actual examination papers and mark schemes in the future.

In line with Edexcel's SAM and first exam for AS Paper 1, the majority of mark schemes to questions posed award **knowledge** marks for **definitions of key economic terms / concepts relevant to the question, even if a question does not explicitly ask them to do this** (eg Q3b, Q4a, 6b, 6e, 6f and 6g of Edexcel's original SAM and Q1b, 5b, 6a and 6c of the first exam for AS Paper 1). Thus, students should be encouraged to **define economic terms / concepts relevant to the question**, prior to answering a question directly.

For the **questions worth 10 or more marks** (where 'level descriptors' are used to mark students' answers), detailed example model answers are provided **in paragraph form**, rather than a list of relevant points anticipated to be raised in the answer. To provide more support to teachers and their students, answers have also been **annotated throughout to show where individual assessment objectives are demonstrated** - with 'Kn' for knowledge, 'Ap' for application, 'An' for analysis and 'Ev' for evaluation. Although it is possible to demonstrate more than one AO in one sentence, points made in answers are **generally** annotated to highlight the **main AO demonstrated**. With regard to these annotations, it should also be appreciated that there is always scope for differences in interpretation of answers in relation to mark schemes, even between experienced examiners.

Answers to **questions worth 10 or more marks** typically contain a **range of examples of comments which attract a mark**. As a result, some of the answers presented may seem a little long, given the time available. However, the total answer may attract **multiple annotations which go beyond the maximum mark available** for that particular question. Hence, there is scope to cut such answers down and still secure the maximum marks.

Finally, it should be appreciated that, with the exception of answers to calculation questions, answers should not be seen as exhaustive - **any valid response should be given due credit**. Mark schemes and answers should, ultimately, be seen as **a set of guidelines**, not rigid performance criteria.

To conclude, whilst every effort has been made to provide appropriate question papers, as well as mark schemes and answers for the questions posed, these question papers, mark schemes and answers are intended as **an aid to the teacher** who must retain full responsibility for checking up-to-date specification requirements and exam board assessment material, and the final delivery of subject matter to students. In this context, APT is always available to discuss any aspect of the question papers, mark schemes and answers, should the teacher wish to discuss APT's interpretation.

These 'Interim and End of Theme Papers' are one of several resources produced by **APT Initiatives Ltd** to support teachers and students taking Edexcel **AS & A Level** Economics A examinations. Interim and End of Theme Papers have also been produced for Theme 2, Theme 3 and Theme 4, and Mock Examination Papers have been produced for all three **A Level** examinations ie Paper 1 (on Themes 1 & 3), Paper 2 (on Themes 2 & 4) and Paper 3 (on all 4 Themes). Further information on each of these resources, as well as other resources for Business and Economics qualifications, is available on APT's website: www.apr-initiatives.com.

APT Initiatives Ltd can be contacted directly with any orders, queries or feedback via the website: www.apr-initiatives.com, via email: support@apr-initiatives.com or by phone: 01952 540877.

Overview of Economics Topics / Concepts Tested

The grid below shows the Economics topics / concepts tested (relating to Theme 1) in the practice paper contained in this resource, by which question / part question in the paper. Note: The grid should not be used as a source of reference of the subject content that candidates are required to study for Edexcel AS and A Level Economics A (Theme 1), as it contains information relating to only part of this subject content (namely the Nature of Economics only), and this subject content is also liable to frequent review. Such information should be obtained directly from the Edexcel website, where the most current versions of Edexcel specifications are placed.

1.1 Nature of Economics

Subject Content		Q No.
1.1.1	Economics as a social science	
a)	Thinking like an economist: process of developing models, the need to make assumptions	6d, 6f
b)	Use of <i>ceteris paribus</i> assumption in building models	1b
c)	Inability in economics to make scientific experiments	6f
1.1.2	Positive and normative economic statements	
a)	Distinction between positive and normative economic statements	4a
b)	Role of value judgements in influencing economic decision making and policy	4a, 4b
1.1.3	The economic problem	
a)	Problem of scarcity – unlimited wants and finite resources	5b, 6d
b)	Distinction between renewable and non-renewable resources	*6a, 6c, 6d, 6e
c)	Importance of opportunity costs to economic agents (consumers, producers, government)	2b
1.1.4	Production possibility frontiers	
a)	Use of PPFs to depict: maximum productive potential of an economy; opportunity cost (through marginal analysis); economic growth or decline; efficient or inefficient allocation of resources; possible and unobtainable production	3a, 3b, 3c, 6f
b)	Distinction between movements along and shifts in production possibility curves, considering possible causes for such changes	6b
c)	Distinction between capital and consumer goods	3a, 3b, 6b
1.1.5	Specialisation and the division of labour	
a)	Specialisation and division of labour: reference to Adam Smith	2a, 6e
b)	Advantages / disadvantages of specialisation and division of labour in organising production	6e
c)	Advantages / disadvantages of specialising in the production of goods and services to trade	6e
d)	Functions of money - medium of exchange, measure of value, store of value, method of deferred payment.	5a
1.1.6	Free market, mixed and command economies	
a)	Distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek, Karl Marx	1a, 6g
b)	Advantages / disadvantages of a free market economy and a command economy	6g
c)	Role of the state in a mixed economy	1a, 6c

*Q6a does not require distinguishing between renewable and non-renewable resources but use of quantitative skills within the context of renewable and non-renewable resources.

Write your name here

Surname	Other names
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APT Initiatives Ltd: Interim Paper 1 on
1.1 Nature of Economics for

Pearson Edexcel

Level 3 GCE

Economics A

Advanced Subsidiary

Theme 1: Introduction to markets and market failure

Time: 1 hour 30 minutes

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name.
(Note: Your centre number and candidate number will also be required in the actual exam).
- There are two sections in this question paper.
- Answer **all** questions in Section A.
- In Section B, answer **all** of questions 6(a) to 6(e) and **one** question from 6(f) or 6(g).
- Answer the questions in the spaces provided - *there may be more space than you need*.

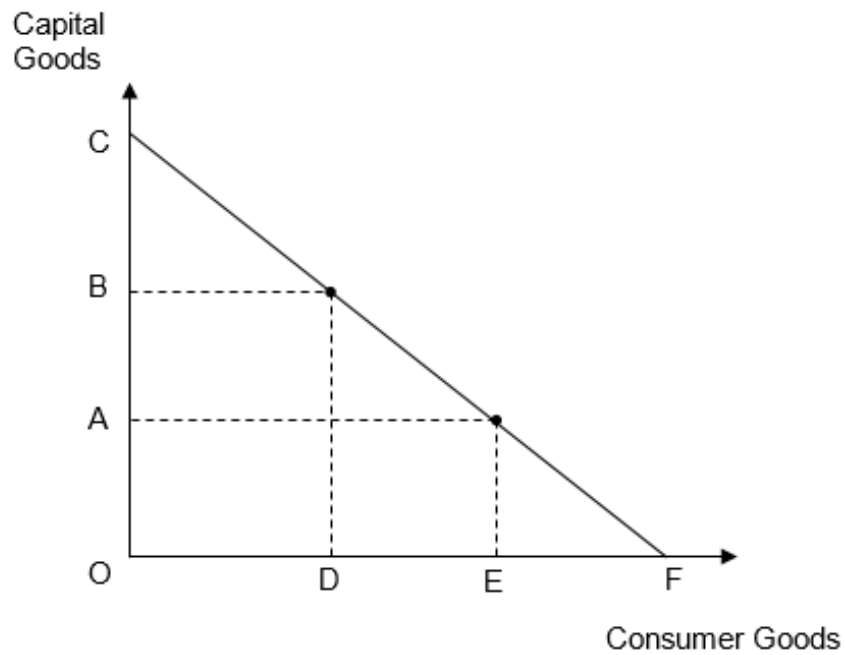
Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets - *use this as a guide as to how much time to spend on each question. (Note: You have approximately 1 minute per mark - allowing some time to read through each question, the extracts in Section B, and your answers).*

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

- 3 The production possibility frontier (PPF) diagram below represents an economy that produces capital goods and consumer goods. The economy is located on the boundary of its PPF and produces a quantity of consumer goods at E.



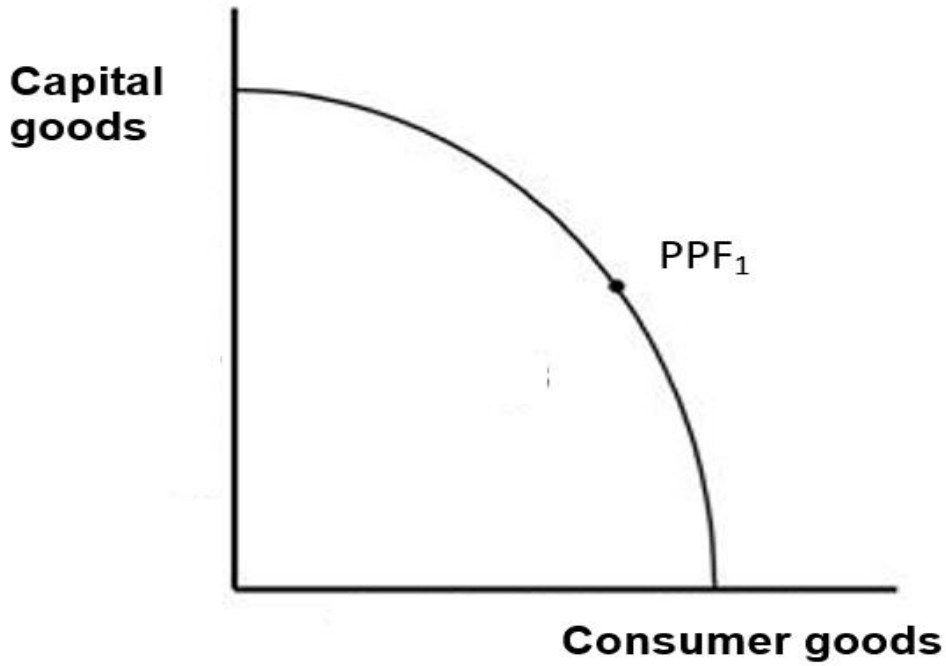
- (a) Which **one** of the following is the measure of the quantity of capital goods that it has given up?

(1)

- A AO
- B EO
- C CB
- D CA

(b) Illustrate economic decline on the following diagram:

(1)



(c) Two significantly disruptive earthquakes occurred in Nepal, in April and May 2015. Explain why these earthquakes led to significant economic decline in Nepal.

(2)

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(Total for Question 3 = 4 marks)

5 There was an increase of 9.6% in spending on credit cards in the UK during 2015. This was attributed to the ongoing economic recovery and an increase in the confidence of consumers to purchase luxury items.

(a) Which **one** of the functions of money is illustrated by the delay in settlement facilitated through payment by a credit card?

(1)

- A Medium of exchange
- B Measure of value
- C Store of value
- D Method of deferred payment

(b) Explain how the 'economic problem' can be applied to a consumer making the decision to purchase a new laptop.

(3)

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(Total for Question 5 = 4 marks)

SECTION B

Read the following Extracts (A to C) and Figure 1 before answering Question 6.

Answer ALL Questions 6(a) to (e), and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour 5 minutes on this section.

The energy market

Extract A

Investment in renewable energies

The issue of renewable energy production is high on many agendas, both at home and abroad. One obvious reason for this is because wind, wave and solar energy development addresses the burning question of energy scarcity. Another reason is because throughout 2015, there was a global increase in investment in the capacity to generate energy. The investment in renewable energy was twice that of fossil fuels with annual global spending in the sector reaching \$286bn in 2015. Moreover, for the first time, developing economies invested more than the richer countries in renewable energy sources. As an employer, the renewables sector is also significant - with over 8 million people working across these industries worldwide.

5

Extract B

Sustainable energy and government intervention

The economies making the largest contributions to the renewable energies sector in 2015, were China, the US, Japan, India and the UK. This is despite the fall in the price of oil and other fossil fuels. The forward thinking emerging economies and long-time industrial giants have all realised that the issue of scarcity will only get worse in the non-renewable energy market.

5

The global need for power to run consumer goods, such as those used for cooling and heating in homes, is increasing. Therefore, the need for sustainable, alternative renewable energy sources has never been so acute. One of the best ways to protect the global environment, whilst increasing production possibilities in the coming decade, is for governments to encourage the allocation of resources to energy generation that is both sustainable and makes the least contribution to the environmental damage caused by climate change.

10

Sources of facts and figures: McGrath, M., 'Renewable energy surges to record levels around the world', *BBC News*, 1 June 2016, <http://www.bbc.co.uk/news/science-environment-36420750>, (accessed July 2016); Randall, T., 'Wind and Solar Are Crushing Fossil Fuels', *Bloomberg*, 6 April 2016, <http://www.bloomberg.com/news/articles/2016-04-06/wind-and-solar-are-crushing-fossil-fuels>, (accessed July 2016)

Extract C

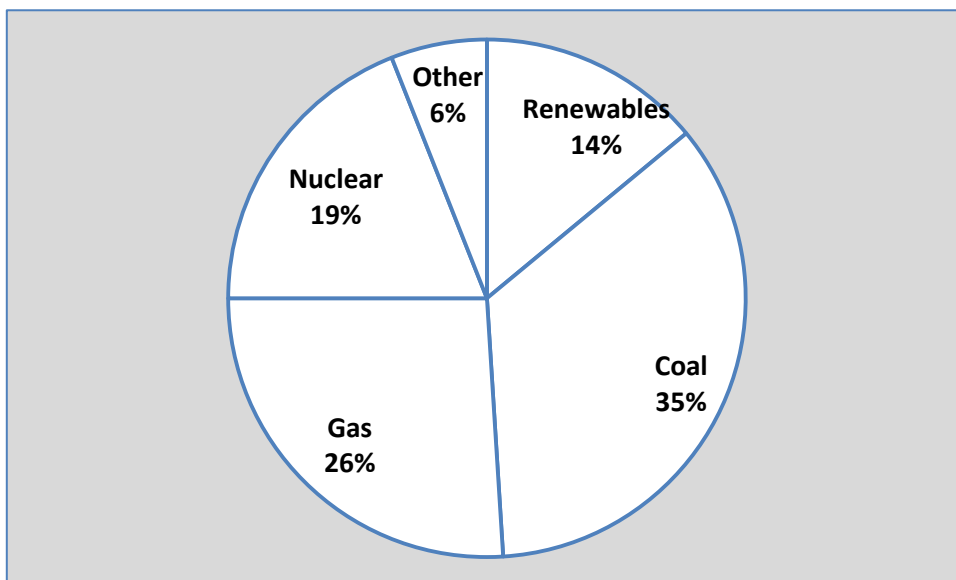
Specialisation and the greener national energy pool

Three UK energy providers (Ecotricity, Good Energy and Ovo Energy) claim that all of the electricity they provide is from 100% renewable resources. However, the average mix across all providers is far less 'green' (see Figure 1 below). The problem is that all electricity in the UK, however generated, is supplied into the same 'national pool'. For consumers, this means that despite buying their energy from a 100% renewable provider, the energy they consume is from the same dirty mix of sources as every other household. 5

The creation of renewable energy involves a range of specialist labour. There are workers who require skills in engineering to generate the power, operational logistics to distribute the power, and marketing to sell the power. Each of these functions enhances the work of the others. No individual could produce, distribute and sell the energy on his or her own. Through specialisation there is a synergy which delivers the benefits of the division of labour. 10

One way that renewable energy providers can assist the ongoing expansion of the sector in the UK, is to maintain a low price, which will increase their appeal to consumers. This can be achieved through organising their production processes efficiently, in order to offer the lowest possible prices. The economic benefits of specialisation have been understood since 1776, in terms of output, unit costs and productivity. Firms that produce wind, wave and solar energy must ensure that they are operating efficiently. This maximises the chance of consumers demanding power from the renewable sector, and increases the concentration of renewable energy in the national energy pool. 20

Figure 1 - UK average fuel source mix (2015)



Source: The FRONt project: for Fair Renewable Heating and Cooling Options and Trade, [website], <http://www.front-rhc.eu/about/countries/uk/>, (accessed July 2016)

6 (a) With reference to Figure 1, calculate the ratio of coal fuel sources to renewables and nuclear fuel sources to renewables for the UK in 2015, correct to two decimal places. You are advised to show your working.

(4)

Coal fuel to renewables.....
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Nuclear fuel to renewables.....
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Mark Schemes & Example Model Answers

INTERIM PAPER 1: Theme 1 Section 1.1 - Nature of Economics

SECTION A

1 The UK, like the majority of countries, features a mixed economy. When changes in the role of the state are analysed in a mixed economy this is undertaken using the assumption of ceteris paribus.

(a) Which **one** of the following is **not** a characteristic of a mixed economy?

- A The allocation of resources is determined in part by consumers and producers
- B The allocation of resources is determined entirely by the government
- C Individuals are allowed to pursue their own economic interests
- D The allocation of resources is determined in part by the government

Question Number	Answer	Mark
1(a)	B	(1)

(b) Explain why the assumption of 'ceteris paribus' is important in economic analysis. Use an example in your answer.

Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Knowledge 1, Application 2</p> <p>Knowledge / understanding</p> <p>1 mark for a correct definition of ceteris paribus, e.g.</p> <ul style="list-style-type: none"> • The condition of ceteris paribus, which is assumed in most economic analysis, refers to the holding of all other variables as constant (1). <p>Application</p> <p>Up to 2 marks for linked application. Note: The candidate must use an example for both marks; accept any reasonable example, e.g.</p> <ul style="list-style-type: none"> • Economic analysis often considers the relationship between two variables, such as the impact of a 2.5% decrease in value added tax on the rate of increase in GDP (1). • Assuming ceteris paribus simplifies the analysis by allowing economists to isolate and consider just the relationship between two variables - in this case VAT and GDP, without trying to take account of other factors that affect GDP (1). 	(3)

2 In 1776, Adam Smith formalised the idea that the division of labour would have a positive impact on the maximum quantity of output that a firm could produce. Adam Smith also realised that any decision involving a reorganisation of the factors of production would involve an opportunity cost.

(a) In which **one** of the following scenarios would the division of labour have the greatest impact on the quantity of output produced?

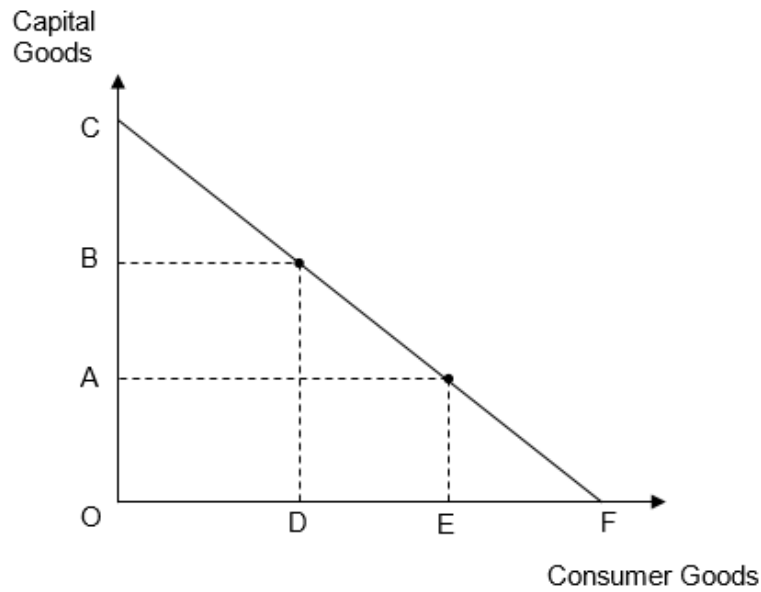
- A A painter and decorator who employs one apprentice
- B A car manufacturer employing 300 workers producing one model of a particular car
- C A baker who employs 2 people making a range of biscuits from home
- D A sofa manufacturer employing 300 workers producing handmade items to order

Question Number	Answer	Mark
2(a)	B	(1)

(b) Explain **one** opportunity cost associated with a firm employing an additional worker.

Question Number	Answer	Mark
2(b)	<p style="text-align: center;">Knowledge 1, Application 1, Analysis 1</p> <p>Knowledge / understanding</p> <p>1 mark for a correct definition of opportunity cost, e.g.</p> <ul style="list-style-type: none"> • The opportunity cost of a decision is the benefit foregone of the next best alternative when a resource is used in a particular way (1). <p>Application</p> <p>1 mark for linked application to a firm employing an additional worker, e.g. In this case...</p> <ul style="list-style-type: none"> • The firm employing an additional worker will incur recruitment / wages / training costs, and this money could have been directed to other productive uses within the firm, such as upgrading machinery (1). <p>Analysis</p> <p>1 mark for developed analysis, e.g. For example...</p> <ul style="list-style-type: none"> • The alternative investment in upgrading machinery could have led to increased efficiency / productivity (1) / reduced unit production costs (1) (<i>and, thereby, increased profit and / or enabled the firm to offer lower prices and, thus, enjoy higher sales</i>). 	(3)

3 The production possibility frontier (PPF) diagram below represents an economy that produces capital goods and consumer goods. The economy is located on the boundary of its PPF and produces a quantity of consumer goods at E.

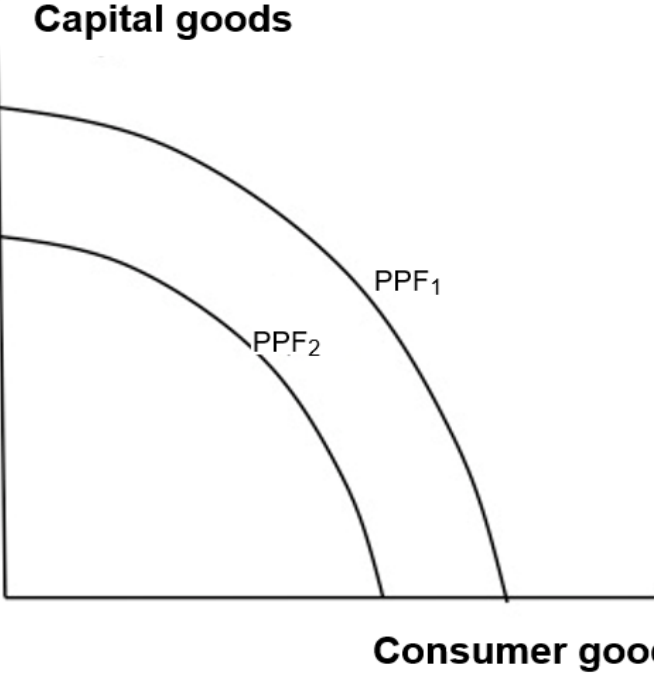


(a) Which **one** of the following is the measure of the quantity of Capital Goods that it has given up?

- A AO
- B EO
- C CB
- D CA

Question Number	Answer	Mark
3(a)	D	(1)

(b) Illustrate economic decline on the following diagram:

Question Number	Answer	Mark
3(b)	<p style="text-align: center;">Knowledge 1</p>  <p style="text-align: center;">New PPF drawn below line (1).</p>	(1)

(c) Two significantly disruptive earthquakes occurred in Nepal, in April and May 2015. Explain why these earthquakes led to significant economic decline in Nepal.

Question Number	Answer	Mark
3(c)	<p style="text-align: center;">Application 1, Analysis 1</p> <p>Application</p> <p>1 mark for reference to the devastation earthquakes would have caused to factors of production in Nepal, e.g.</p> <ul style="list-style-type: none"> The earthquakes in Nepal would have destroyed infrastructure and businesses and, in the worst case scenario, injured and, even, killed people (1). <p>Analysis</p> <p>1 mark for linked development to the economic decline that occurred in Nepal, e.g.</p> <ul style="list-style-type: none"> This would have reduced the maximum potential output of the Nepalese economy (as shown in the new PPF line - in answer b above), resulting in economic decline (1). 	(2)

4 The government of the UK makes economic policy decisions. Some of these decisions are based on facts, whilst others can be more subjective and influenced by value judgements.

(a) Which **one** of the following is a positive statement?

- A The retirement age should be reduced to 55 in the UK, in order to improve health and well-being in later life
- B Scarcity is the most serious economic problem that an economy faces
- C A production possibility frontier depicts the maximum productive potential of an economy
- D A free market will allocate resources better than a command economy

Question Number	Answer	Mark
4(a)	C	(1)

(c) Explain, with the use of an example, how policy decisions made by governments are often based on a value judgement.

Question Number	Answer	Mark
4(b)	<p style="text-align: center;">Knowledge 1, Application 2</p> <p>Knowledge / understanding:</p> <p>1 mark for a correct definition of value judgement, e.g.</p> <ul style="list-style-type: none"> • A value judgement is an opinion or choice expressed by a person or group (e.g. a political party), which is not derived from evidence (1). <p>Application:</p> <p>Up to 2 marks for application to a government policy, e.g.</p> <p>A government choosing a policy of maintaining spending on overseas aid, whilst reducing its national defence budget, is an example of a value judgement (1). It reflects, exclusively, the value the government places on overseas aid in relation to that of national defence, without reference to evidence in favour of one over the other. (1).</p>	(3)

5 There was an increase of 9.6% in spending on credit cards in the UK during 2015. This was attributed to the ongoing economic recovery and an increase in the confidence of consumers to purchase luxury items.

(a) Which **one** of the functions of money is illustrated by the delay in settlement facilitated through payment by a credit card?

- A Medium of exchange
- B Measure of value
- C Store of value
- D Method of deferred payment

Question Number	Answer	Mark
5(a)	D	(1)

(b) Explain how the 'economic problem' can be applied to a consumer making the decision to purchase a new laptop.

Question Number	Answer	Mark
5(b)	<p style="text-align: center;">Knowledge 1, Application 2</p> <p>Knowledge / understanding</p> <p>1 mark for correct identification of the economic problem, e.g.</p> <ul style="list-style-type: none"> • The economic problem concerns the fact that the economy's resources are finite and insufficient to satisfy all human needs and wants, and so choices have to be made about how best to allocate scarce resources (1). <p>Application</p> <p>Up to 2 marks for application to the purchase of a laptop, e.g.</p> <ul style="list-style-type: none"> • Consumers have a finite amount of money to spend at any one time, and have to make choices about how to spend it (1). In the case of a decision to purchase a laptop, for example, the consumer must make a choice between spending some of their limited money on the laptop, or not obtaining the laptop and keeping the money and possibly earning interest on this money, or spending the money on something else they desire (1). <p><i>Note: When discussing this answer with students, the concept of opportunity cost could be raised: when making choices something is gained and something is lost (or foregone). The thing that is lost (or foregone) when making choices is known as the opportunity cost.</i></p>	(3)

SECTION B

- 6 (a) With reference to Figure 1, calculate the ratios of coal fuel sources to renewables and nuclear fuel sources to renewables for the UK in 2015, correct to two decimal places. You are advised to show your working.

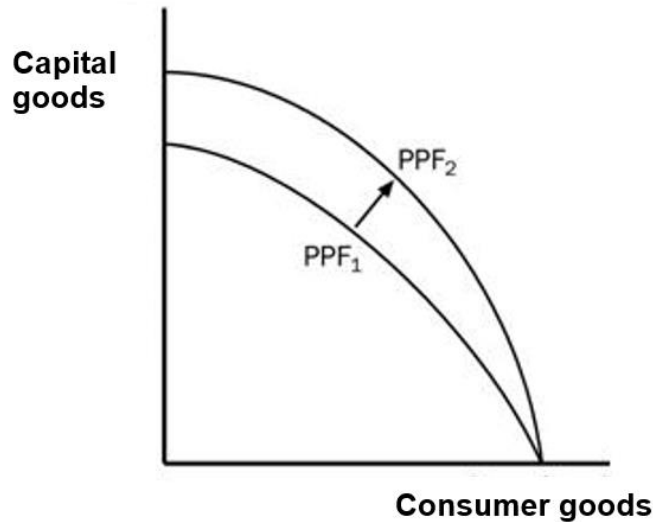
Question Number	Answer	Mark
6(a)	<p style="text-align: center;">Knowledge 2, Application 2</p> <p>2 marks for correct use of formula to calculate ratios (1 + 1). 2 marks for correct answers (1 + 1), e.g.</p> <p>$35 : 14 = 35 / 14 (1) = 2.5$ ratio of coal fuel sources to renewables = 2.5 : 1 (1)</p> <p>NB If just the answer is given (i.e. 2.5 : 1) award 2 marks. Do not accept 2.5 on its own, i.e. without : 1 (or to 1).</p> <p>$19 : 14 = 19 / 14 (1) = 1.36$ ratio of nuclear fuel sources to renewables = 1.36 : 1 (1)</p> <p>NB If just the answer is given (i.e. 1.36 : 1) award 2 marks. Do not accept 1.36 on its own, i.e. without : 1 (or to 1).</p>	(4)

- (b) Consider an economy that produces just consumer and capital goods. With reference to Extract A, use a production possibility frontier diagram to explain the outcome of 'an increase in investment in the capacity to generate energy' (Extract A, line 4).

Question Number	Answer	Mark
6(b)	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 2</p> <p>Knowledge / understanding:</p> <p>1 mark for correctly labelled, original PPF diagram - see diagram under 'exemplar answer' below - all to be included except 'PPF₂'.</p> <p>Application: Up to 2 marks for application.</p> <p>1 mark for correctly identifying how an increase in investment in the capacity to generate energy will affect the PPF.</p> <p>1 mark for drawing this correctly on the PPF diagram.</p> <p>Analysis: Up to 2 marks for analysis</p> <p>1 mark for explaining why the outward (non-parallel) shift of PPF occurs.</p> <p>1 mark for explaining what this outward shift might lead to in the longer term (in terms of consumer, not just capital goods).</p>	

Exemplar answer:

With reference to PPF₁ on the diagram below (1), a net increase in investment in the capacity to generate electricity will shift the PPF to the right (1). This is shown as a non-parallel shift from PPF₁ to PPF₂ on the diagram (1).



A non-parallel shift to the right occurs because an increase in the capacity to generate electricity constitutes an increase in capital goods, which leads to an increase in the productive potential of the economy in terms of capital goods, but not consumer goods (1). Over the longer term, as a result of extra incomes arising from this extra investment, aggregate demand will increase, ceteris paribus, allowing the potential production of consumer goods to increase in due course (1).

(5)

Note: The final sentence in the above exemplar answer refers to specification content covered later in the AS (& A Level) specification. Reference to 'aggregate demand' would not be expected to be made by students who have only studied this first sub-section of the AS (& A Level) specification on the 'Nature of economics'. It would, however, be expected to be referred to within the response of a candidate taking the final AS (or A Level) exam.

(c) With reference to Extract B, explain **two** ways in which the government, in a mixed economy, may increase the allocation of resources in favour of renewable rather than non-renewable types of energy.

Question Number	Answer	Mark
6(c)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2</p> <p>Knowledge / understanding:</p> <p>1 mark for definition of a mixed economy, e.g.</p> <ul style="list-style-type: none"> • A mixed economy is one in which the government intervenes to a limited extent in order to influence standards of living and the resource allocation (1). <p>1 mark for definition of renewable / non-renewable resources, e.g.</p> <ul style="list-style-type: none"> • Renewable resources are those that can be replenished by the environment over a period of time, whilst non-renewable resources can be used only once (1). <p>Application:</p> <p>Up to 2 marks for identifying a maximum of two ways in which the government can influence resource allocation in the context of energy, e.g. any two of the following:</p> <ul style="list-style-type: none"> • Governments can encourage the production and use of renewable energies through tax incentives (1). • Governments can directly influence the allocation of resources by increasing their own use of renewable energy (1). • Governments can encourage the use of renewable energy through advertising and marketing campaigns (1). • Governments can encourage the use of renewable energy through subsidies to incentivise consumption, such as the assisted purchase of domestic solar panels (1). <p>Analysis:</p> <p>Up to 2 marks for linked development, e.g.</p> <ul style="list-style-type: none"> • This will ensure that the reliance on increasingly scarce non-renewable resources is reduced (1). • This will ensure that the economy's resource allocation makes a lower contribution to the environmental damage caused by climate change (1). • This will ensure that the sustainability of UK energy provision is enhanced (1). • This will ensure that the health and well-being of the UK population is improved (1). 	(6)

(d) With reference to Extract A and Figure 1, assess the likely impact of the global increase in investment in renewable energy (Extract A, line 4) on total energy resource scarcity.

Question Number	Answer	Mark
6(d)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2 Evaluation 4</p> <p>Example Model Answer:</p> <p>The problem of scarcity applies to all resources as there are unlimited wants in an environment of limited resources. (Kn) Energy generation can utilise either renewable resources, such as wind, solar and wave, or the relatively more scarce, non-renewable resources, such as coal, natural gas and nuclear. (Kn, Ap) <i>(Note to discuss with students re: classification of nuclear energy: It is generally accepted that this is not renewable, because the uranium required for the fission is non-renewable and therefore the process is non-renewable. In the future, fusion may be achieved with water, but this is not yet a viable proposition).</i></p> <p>In the UK in 2015, renewable sources accounted for just 14% of energy generation, with non-renewable accounting for the other 86%. (Ap) However, for the first time, in 2015, global investment in the renewables sector exceeded the value of the investment in the non-renewable sector.</p> <p>The impact of this global increase in investment in renewable energy is that, in the future, increasingly large amounts of energy will feasibly be generated through renewable sources. This would cause an increase in the 14% of renewable energy generated in the UK. (Ap, An) The effect will be to reduce the speed with which scarce non-renewable resources from both the UK and overseas are used up. (An) Furthermore, the opportunity cost of renewables will remain very low, with the “raw material being free,” compared with the increasing opportunity cost associated with non-renewable options, as sources become ever scarcer. (An)</p> <p>The extent to which this process takes effect will depend on the trend towards renewable sources of energy generation continuing in the future at a significant rate. (Ev) With the USA, the UK, China, Japan and India all making significant contributions, it appears that the political will to back renewable energy generation is present. (Ev) It will also depend on the price at which the renewable energy reaches the market. (Ev) This must remain competitive against the non-renewable sector, where prices fell during 2015. (Ev) It should also be noted that resource scarcity cannot be reversed, rather the rate at which the resource is depleted can be reduced, particularly if currently unknown, non-renewable sources are found and can be easily and cheaply accessed. (Ev)</p>	<p style="text-align: right;">(6)</p> <p style="text-align: right;">(4)</p>

Level	Mark	Descriptors for Knowledge, Application and Analysis
	0	<ul style="list-style-type: none"> • Gives a completely inaccurate response.
Level 1	1-2	<ul style="list-style-type: none"> • Shows discrete or imprecise knowledge and understanding of economic terms, concepts, theories or models, ie knowledge and understanding is considered in isolation and lacks exactness and accuracy of expression or detail. • Uses generic or irrelevant information or examples, ie information and examples that could apply to any context or that are not relevant to the context / question. • Gives a descriptive response - there are no chains of reasoning evident / links made between causes and effects.
Level 2	3-4	<ul style="list-style-type: none"> • Shows elements of knowledge and understanding of economic principles, concepts, theories or models. • Applies economic knowledge and understanding to economic problems in context, but does not focus on the broad elements of the question ie the answer may stray from the question set. • Gives a narrow or unbalanced response - chains of reasoning are evident but are not fully developed, or only one point of view is considered.
Level 3	5-6	<ul style="list-style-type: none"> • Demonstrates accurate knowledge and understanding of economic principles, concepts, theories or models. • Applies appropriate economic knowledge and understanding to the context / precise question set, using relevant examples, which are fully integrated. • Provides a wide and balanced response - chains of reasoning are developed and more than one point of view is considered.

Level	Mark	Descriptors for Evaluation
	0	<ul style="list-style-type: none"> • Makes no evaluative comment.
Level 1	1-2	<ul style="list-style-type: none"> • Makes evaluative comments that are generic ie statements that would apply to any context that are not supported with evidence / reference to the context. • Comments do not stem from a logical chain of reasoning.
Level 2	3-4	<ul style="list-style-type: none"> • Provides evaluative comments that are supported by logical chains of reasoning, including appropriate reference to the context. • The evaluation is balanced and considers the broad elements of the question, ie takes into account more than one point of view and the range of points considered essential to fully address the question.

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(e) With reference to Extract C, Figure 1 and your own knowledge, discuss the contribution of specialisation and the division of labour in the production of renewable energy, to the ongoing expansion of the sector in the UK.

Question Number	Answer	Mark
6(e)	<p style="text-align: center;">Knowledge 3, Application 3, Analysis 3 Evaluation 6</p> <p>Example Model Answer:</p> <p>The division of labour and specialisation involves a firm splitting its production processes into a number of tasks. (Kn) Different parts of the process are allocated to different employees who acquire skills and efficiency in the tasks they perform. (Kn) As workers become more skilled, productivity will increase, which means that total output will increase and average costs will fall. (Kn)</p> <p>At present, the renewable energy sector contributes just 14% of energy to the national pool, and in order to increase consumption of renewable energy and secure the ongoing expansion of this sector in the UK, energy companies need to ensure they are price-competitive. (Ap, An) This can be achieved through maximum exploitation of the division of labour in the production process - with specific tasks in engineering, operational logistics and marketing being performed by specialist workers, in order to produce the renewable energy using the most efficient, synergised methods. (Ap, An)</p> <p>The renewable energy produced, using the division of labour and specialisation, will be at the lowest unit costs, reflecting maximum productivity. (An) This will help to provide renewable energy at the lowest possible price to the consumer, which is one of the most critical factors used to assess and choose between energy suppliers. (Ap, An) This will then increase the ratio of renewable to non-renewable energy in the UK energy pool, and thereby contribute to the expansion of renewable energy consumption in the UK. (Ap, An)</p> <p>The extent to which the division of labour and specialisation can deliver an expansion of consumption of renewable energy depends on a number of factors. Firstly, there needs to be the continued investment in the renewable energy sector, which is likely to exploit fully the cost and efficiency benefits of the latest technology. (Ev) Also, there can be problems associated with the various specialised processes organised through the division of labour. (Ev) These include workers losing motivation with respect to their potentially boring and repetitive tasks, leading to a fall in productivity and a resultant increase in average costs. (Ev) Moreover, the extent to which the division of labour and specialisation can deliver an expansion of consumption of renewable energy through lower prices (as a result of lower costs), will depend on the activities of the non-renewable energy generating sector (Ev). For example, it will depend on whether this sector is able to deliver a more competitive offer - in terms of price and / or service, through greater efficiencies (Ev). If it is able to do this, then the renewable sector may not enjoy ongoing expansion. (Ev)</p>	<p style="text-align: right;">(9)</p> <p style="text-align: right;">(6)</p>

Level	Mark	Descriptors for Knowledge, Application and Analysis
	0	<ul style="list-style-type: none"> • Gives a completely inaccurate response.
Level 1	1-3	<ul style="list-style-type: none"> • Shows discrete or imprecise knowledge and understanding of economic terms, concepts, theories or models, ie knowledge and understanding is considered in isolation and lacks exactness and accuracy of expression or detail. • Uses generic or irrelevant information or examples, ie information and examples that could apply to any context or that are not relevant to the context / question. • Provides a descriptive response - there are no chains of reasoning evident / links made between causes and effects.
Level 2	4-6	<ul style="list-style-type: none"> • Shows elements of knowledge and understanding of economic principles, concepts, theories or models. • Applies economic knowledge and understanding to economic problems in context, but does not focus on the broad elements of the question ie the answer may stray from the precise question set. • Gives a narrow or unbalanced response - chains of reasoning are evident but are not fully developed, or only one point of view is considered.
Level 3	7-9	<ul style="list-style-type: none"> • Demonstrates accurate knowledge and understanding of economic principles, concepts, theories or models. • Accurately selects and applies appropriate economic knowledge and understanding to the context / precise question set, using relevant examples, which are fully integrated. • Provides a wide and balanced response - logical and coherent chains of reasoning are developed, and more than one point of view is considered.

Level	Mark	Descriptors for Evaluation
	0	<ul style="list-style-type: none"> • Makes no evaluative comment.
Level 1	1-2	<ul style="list-style-type: none"> • Makes evaluative comments that are generic, ie statements that would apply to any context that are not supported with evidence / reference to the context. • Comments do not stem from a logical chain of reasoning.
Level 2	3-4	<ul style="list-style-type: none"> • Makes evaluative comments that are supported with evidence / reference to the context. • Comments are supported by a partially developed chain of reasoning, but do not take into account more than one point of view.
Level 3	5-6	<ul style="list-style-type: none"> • Provides evaluative comments that are supported by a logical chain of reasoning, including appropriate reference to the context. • The evaluation is balanced and considers the broad elements of the question, ie takes into account more than one point of view and the range of points considered essential to fully address the question.

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- (f) Evaluate the view that traditional economic models, such as that of the production possibility frontier referred to in Extract B, are based on unrealistic assumptions and are, therefore, of little practical use.

Question Number	Answer	Mark
6(f)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6 Evaluation 6</p> <p>Example Model Answer:</p> <p>The study of economics involves the creation of models that are based on assumptions. (Kn) These models help economists to replicate fundamental aspects of the real world, and understand how aspects of the economy function and interrelate. (Kn) The assumptions that the models are based on are inevitably limited, sometimes restrictive, and may appear unrealistic. (Kn) The justification for their use is that they allow economists to simplify the analysis of complex and dynamic situations. (Kn) Once relationships can be understood in this context, it is possible to analyse outcomes that may occur in the real world and to make valuable predictions. (Kn) The relevance and use of such analysis must, however, be evaluated in light of the assumptions made. (Kn, Ev)</p> <p>Economists utilise a model depicting the production possibility frontier which serves as a good example of the points made above. This model allows economists to consider maximum potential outputs in the context of limited resources, along with aspects of efficiency and opportunity cost. (Kn) This model, like other economic models, is based on a number of assumptions. (Kn) These include the state of technology being held constant, resources being fully and most efficiently utilised, only two commodities being produced, and the supply and quality of all factors being fixed. (Kn) The model allows economic analysis and predictions to take place, but the simplifying assumptions have led to criticism that this and other models do not sufficiently reflect economic reality and are, therefore, of little practical use. (Ap, An)</p> <p>The fundamental assumptions of the model of the production possibility frontier can be criticised. Technology, in particular, is considered as constant, which is unlikely to reflect the economic reality. (Ap) Moreover, the quality of the factors of production is assumed to be static, which does not reflect the dynamic reality of an evolving economy. (Ap) The whole concept of 'ceteris paribus' is also open to challenge in a modern economy where several variables will change at the same time. (Ap) In this context, the actual shape and position of the curve would be constantly moving, and therefore could never be identified, and therefore no accurate data could be derived. (An) The permanent, full and efficient use of resources would imply permanent, full employment and firms operating at minimum costs, which is very unlikely to be the case across an entire economy. (An) For example, businesses are constantly striving to identify and exploit new efficiency opportunities and are, therefore, sometimes less efficient than they could potentially be. (An)...</p>	

	<p>No economic reality reflects the assumption of producing only two commodities, although two classes of commodity (consumer and capital goods) could be considered, and these classes are at least representative of an economy as a whole. (An)</p> <p>To conclude, the assumptions underlying such economic models as the production possibility frontier, do not reflect reality as such and, therefore, may not be suitable for making accurate predictions. (Ev) However, this does not necessarily mean the models are of little practical use. (Ev) Economists who support the use of such models argue that they are not designed to completely replicate the behaviour of firms, consumers, or the economy. Rather, they are a benchmark providing the framework against which activity in the real world may be judged. (Ev) Moreover, the value of such models should only be considered in relation to the importance of the use to which they are being put. (Ev) The less important the use, the less impactful the shortcomings will be. (Ev) Milton Friedman claimed that unrealistic assumptions may be justified if they produce economic models with genuine and useful predictive power. (Ev) The question then becomes one over the validity and strength of the predictive power, rather than the assumptions. (Ev)</p>	<p>(14)</p> <p>(6)</p>
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	0	<ul style="list-style-type: none"> • Gives a completely inaccurate response.
Level 1	1-3	<ul style="list-style-type: none"> • Shows discrete or imprecise knowledge and understanding of economic terms, concepts, theories or models, ie knowledge and understanding is considered in isolation and lacks exactness and accuracy of expression or detail. • Uses generic or irrelevant information or examples, ie information and examples that could apply to any context or that are not relevant to the context / question. • Provides a descriptive response - there are no chains of reasoning evident / links made between causes and effects.
Level 2	4-6	<ul style="list-style-type: none"> • Shows elements of knowledge and understanding of economic principles, concepts, theories or models. • Applies economic knowledge and understanding to economic problems in context, but does not focus on the broad elements of the question ie the answer may stray from the question set. • Gives a narrow or unbalanced response ie chains of reasoning are superficial, two stage only, or only one point of view is considered.
Level 3	7-10	<ul style="list-style-type: none"> • Demonstrates accurate knowledge and understanding of economic principles, concepts, theories or models. • Applies economic knowledge and understanding directly to the precise question set, with evidence integrated into the answer. • Demonstrates clear and coherent analysis, with developed chains of reasoning, but may only consider one point of view.
Level 4	11-14	<ul style="list-style-type: none"> • Demonstrates precise knowledge and understanding of economic principles, concepts, theories or models. • Accurately selects and applies economic knowledge and understanding to address the economic issues and problems raised in the context / question, with appropriate evidence and examples fully integrated into the answer. • Demonstrates relevant and focused analysis that considers more than one point of view, with logical and coherent chains of reasoning.

Level	Mark	Descriptors for Evaluation
	0	<ul style="list-style-type: none"> Makes no evaluative comment.
Level 1	1-2	<ul style="list-style-type: none"> Makes evaluative comments that are generic, ie statements that would apply to any context that are not supported with evidence / reference to the context. Comments do not stem from a logical chain of reasoning.
Level 2	3-4	<ul style="list-style-type: none"> Makes evaluative comments that are supported with evidence / reference to the context. Comments / judgements are not fully substantiated - they are supported by a partially developed chain of reasoning, and do not take into account more than one point of view.
Level 3	5-6	<ul style="list-style-type: none"> Provides evaluative comments that directly address the question and are supported with evidence, including appropriate reference to the context. Comments / judgements are fully substantiated - they are supported by a logical and relevant developed chain of reasoning, and take into account more than one point of view, including the range of points considered essential to fully address the question.

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(g) There is reasonable agreement amongst economists that a free market economy is superior to a command economy in meeting the preferences of consumers, with respect to issues such as renewable energy provision.

To what extent do you agree with this statement?

Question Number	Answer	Mark
6(g)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6 Evaluation 6</p> <p>Example Model Answer</p> <p>A free market economy is characterised by a system where the allocation of resources is guided by market forces, without the intervention of the state. (Kn) Command economies, conversely, rely on the state to make decisions over resource allocation. (Kn) Both systems are attempts at resolving the basic economic problem of scarcity. (Kn)</p> <p>Economists, such as Adam Smith, advocate the free market as the most efficient system for meeting the preferences of consumers. (Kn, Ap) This is because consumers in a free market are able to express their preferences and the purchase choices they make through the price mechanism, whilst firms respond by supplying the goods and services that consumers indicate that they prefer. (Ap, An) This can be seen in the energy market, where environmental concerns, as well as price considerations, have led some consumers to show their preference for renewable over non-renewable energy sources. (Ap, An) In the purest form of the free market system, consumer preferences are met in the most economically efficient manner. (Kn) This is achieved through keeping costs and prices as low as possible, whilst both consumer and producer welfare are maximised. (An)</p>	

	<p>In a command economy, the state takes responsibility for deciding what to produce, how to produce, and for whom to produce. (Kn) Karl Marx, in particular, advocated this economic system as a means by which the needs and wants of individuals in an economic society could be met, irrespective of income. (Kn, Ap) The market system is, however, considered superior in relation to addressing these fundamental economic questions, largely because of the difficulties of information gathering and processing that the state encounters in a command economy. These difficulties occur when the state attempts to gather and process the information needed to allocate resources to provide a sufficiently productive and allocatively efficient solution to the problem; gathering and processing the wealth of information required can be complex, and it can be difficult to obtain reliable information in the first place. (An)</p> <p>In contrast, the free market economy does not require the central gathering and processing of such information. (Kn) The free market economy has the advantage of large numbers of economic agents, all individually processing information to inform their decisions and then acting in their own self-motivated interest. (Kn, Ap) Such interactions, it is argued, will form an 'invisible hand' guiding the market to achieve the most efficient outcome. (An) This is a result of the consumer's incentive to maximise his / her own well-being, in particular by satisfying his / her own preferences. (An). Firms respond by maximising efficiency in order to charge consumers the most competitive price, and thereby secure maximum sales and profit. (An)</p> <p>The free market economy may, therefore, be seen as the most efficient system for meeting consumer preferences. However, it is not without its weaknesses. (An, Ev) A key weakness is the inequality generated through the free market system, in terms of income and wealth. This situation will be worse when no provision is made for those who are unemployed, or are unable to work - due to age, ability or sickness. (Ev)</p> <p>To conclude, in theory, the free market economy is superior to a command economy in meeting the preferences of consumers. (Ev) However, in the reality of the real world, the weaknesses identified in the free market system render it unacceptable to some in its purest form. (Ev) For example, would a free market economy, driven by the profit motives of competitive firms, generate the levels of investment in renewable energy given rapid changes in technology and a very long pay-back? (Ev) The nature of the judgement on the relative merits of the systems will depend on the extent to which the observer places a value on the fulfilment of personal preferences over the inequality inherent in a pure free market system. (Ev) Karl Marx, for example, saw the inherent conflict between the interests of producers and workers in terms of exploitation, as an issue that he predicted would lead to the complete breakdown of the market system. (Ev) The outcome, for most economies in the real world, is a mixture of market and state provision. This delivers an acceptable degree of freedom over consumer choice, with the renewable energy sector competing for consumers and providing a guaranteed minimum standard of living for all, delivered through some public spending and an acceptable degree of regulation. (Ev)</p>	<p>(14)</p> <p>(6)</p>
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	Note: Example model answers may include content relevant to later sections of the AS specification. Students who have only studied limited aspects of the specification would not be expected to refer to such material in their answer. Such content would, however, be expected to be included within the response of a candidate taking the final exam.	
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	0	<ul style="list-style-type: none"> • Gives a completely inaccurate response.
Level 1	1-3	<ul style="list-style-type: none"> • Shows discrete or imprecise knowledge and understanding of economic terms, concepts, theories or models, ie knowledge and understanding is considered in isolation and lacks exactness and accuracy of expression or detail. • Uses generic or irrelevant information or examples, ie information and examples that could apply to any context or that are not relevant to the context / question. • Provides a descriptive response - there are no chains of reasoning evident / links made between causes and effects.
Level 2	4-6	<ul style="list-style-type: none"> • Shows elements of knowledge and understanding of economic principles, concepts, theories or models. • Applies economic knowledge and understanding to economic problems in context, but does not focus on the broad elements of the question ie the answer may stray from the question set. • Gives a narrow or unbalanced response ie chains of reasoning are superficial, two stage only, or only one point of view is considered.
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Level 2	3-4	<ul style="list-style-type: none"> • Makes evaluative comments that are supported with evidence / reference to the context. • Comments / judgements are not fully substantiated - they are supported by a partially developed chain of reasoning, and do not take into account more than one point of view.
Level 3	5-6	<ul style="list-style-type: none"> • Provides evaluative comments that directly answer the question set supported with evidence, including appropriate reference to the context. • Comments / judgements are fully substantiated - they are supported by a logical and relevant developed chain of reasoning, and take into account more than one point of view, including the range of points considered essential to fully address the question.

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Assessment Objective Grid**INTERIM PAPER 1: Theme 1 Section 1.1 - Nature of Economics**

Question	AO1	AO2	AO3	AO4	Total
1 a	1				1
1 b	1	2			3
2 a	1				1
2 b	1	1	1		3
3 a		1			1
3 b	1				1
3c		1	1		2
4 a	1				1
4 b	1	2			3
5 a	1				1
5 b	1	2			3
Total Section A	9	9	2	0	20
6 a	2	2			4
6 b	1	2	2		5
6 c	2	2	2		6
6 d	2	2	2	4	10
6 e	3	3	3	6	15
6 f or 6 g	4	4	6	6	20
Total Section B	14	15	15	16	60
Total Paper	23	24	17	16	80
AO %	28 - 30 (28.75)	28 - 30 (30)	20 - 22 (21.25)	20 - 22 (20)	100