Choice, models and market adjustment / Elasticity, welfare and policy

Pearson Edexcel · International GCSE · Economics

Supported transfer: Choice, models and market adjustment / Elasticity, welfare and policy

Scope and prerequisite teaching

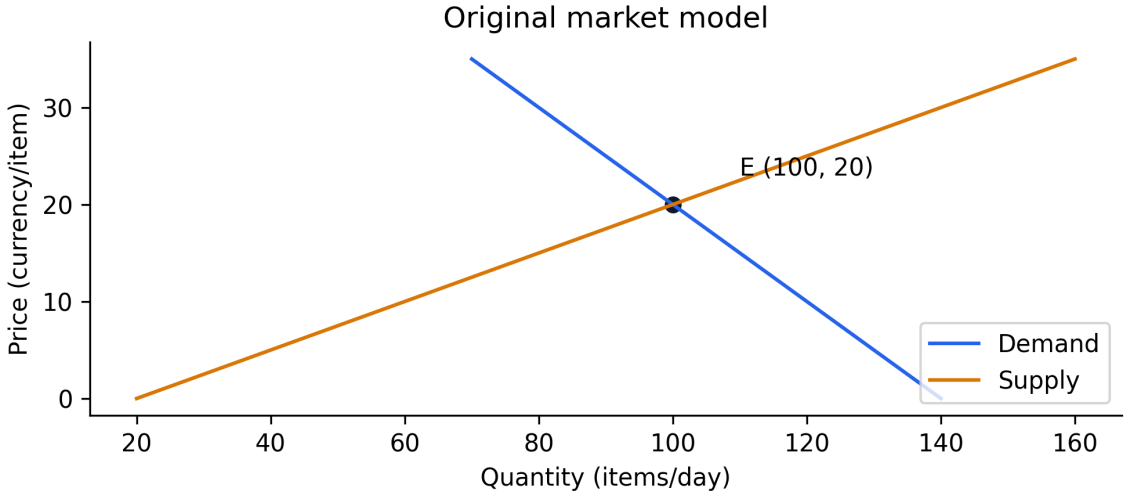
Issue 3, February 2026. Supported mapped specification objectives; qualification rubric reviewed June 2025.

This focused rehearsal adopts the linked native explanations; it does not replace them or certify a whole qualification. Supported objective IDs: 1.1.3a, 1.1.3b, 1.1.3c, 1.1.3d, 1.1.3e, 1.1.3f, 1.1.3g, 1.1.3h, 1.1.3i, 1.1.3j, 1.1.4a, 1.1.4b, 1.1.4c, 1.1.4d, 1.1.4e, 1.1.4f, 1.1.4g, 1.1.4h, 1.1.4i, 1.1.4j, 1.1.4k, 1.1.4l, 1.1.4m, 1.1.4n, 1.1.4o, 1.1.4p, 1.1.4q, 1.1.4r, 1.1.4s.

Native prerequisites: 0201, 0202, 0203, 0204, 0205, 0206, 0207.

Key terms

scarcity ; **opportunity cost** ; **equilibrium** ; **excess demand** ; **elasticity** ; **tax incidence** ; **external cost** ; **welfare** .



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Choice, models and market adjustment

A market price links buyers and sellers. At equilibrium, quantity demanded equals quantity supplied. A lower price can create excess demand; explain the pressure on price without assuming immediate adjustment. Distinguish a movement along a curve from a change in another determinant.

■ Worked case

In an original market table, at price 15 buyers demand 110 items/day and sellers offer 80; at price 20 both quantities are 100; at price 25 they are 90 and 120. Identify equilibrium and explain price pressure at 15. Prices are currency units per item.

The matching quantities identify equilibrium at price 20 currency units/item and quantity 100 items/day. At price 15 the shortage is $110 - 80 = 30$ items/day. Buyers competing for scarce stock or sellers revising prices may push the price up. As price changes, quantities move along unchanged curves. An income or cost change can instead shift a curve; actual adjustment depends on market conditions.

■ Independent transfer

A publicity campaign raises demand while a supplier's input costs increase. Explain why equilibrium quantity cannot be predicted from these directions alone and describe the diagram.

■ Checked original model

Demand shifts right and supply shifts left on axes of price and quantity. Both changes tend to raise equilibrium price, but their quantity effects oppose one another. Draw both new curves and compare relative shifts before judging quantity. Identify the unchanged determinants and time horizon. A large demand increase can outweigh the supply contraction; a large contraction can reverse that result. Do not confuse a movement caused by the new equilibrium price with a second demand shift.

Elasticity, welfare and policy

Percentage changes need a stated convention. PED uses quantity demanded and own price on the same demand relation; PES uses quantity supplied. YED and cross-price elasticity compare different determinants. A unit tax creates a price wedge; relative responsiveness shapes burden. An externality concerns third-party costs/benefits, not merely an expensive transaction. Public goods and information failure have different mechanisms.

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■ Worked case

An original market's pre-tax price is 10. After a unit tax, consumers pay 12 and producers receive 9. Calculate the wedge and burden, then qualify a welfare claim. Tax per item=consumer price−producer receipt=12−9=3 currency units/item. Consumer burden=12−10=2 units/item; producer burden=10−9=1 unit/item. The stated burden split concerns this equilibrium, not a universal tax rule. Tax revenue=tax per item×post-tax quantity; that quantity must be known. Revenue is a transfer, while welfare effects require changes in surplus, resource use and any external harm. A corrective tax can reduce inefficient overproduction, but only with the relevant external-cost model and evidence. Collection cost, evasion and access matter.

■ Independent transfer

A subsidy expands a product with an unpriced external cost. Is greater output necessarily a welfare gain? Compare a better-targeted policy.

■ Checked original model

Greater output can increase external harm even if consumers and producers gain privately. Identify marginal social/private costs and the efficient versus market quantity before judging. A targeted charge or standard may address the harm more directly, subject to measurement, enforcement and distribution. A subsidy for a cleaner alternative might help through a different mechanism; its fiscal and behavioural effects still need evaluation. IGCSE pupils use the supported private/external/social distinction; detailed marginal welfare geometry belongs only where the course's mapped outcomes authorize it.

Evidence and assessment limits

The tasks and marking points here are original, not official questions or mark schemes. The exam format follows the Issue 3 specification and the June 2025 4EC1/01 and 4EC1/02 papers and mark schemes: two 90-minute 80-mark papers, each four compulsory 20-mark questions mixing 1-mark multiple choice, 1–2-mark define/state/calculate, 6-mark analyse, 9-mark assess and 12-mark evaluate items that require reference to the supplied data; extended answers are level-marked (6-mark: 1–2/3–4/5–6; 12-mark: 1–4/5–8/9–12 with an AO4 judgement at the top). Assessment objectives weigh AO2 application at about half of the qualification.

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