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12-Marker Top Tips

- Examiners always value quality over quantity. Forget about the number of points, just develop (chains of analysis) thoroughly.
 - Focus on applying and developing each chain of reasoning rather than listing several separate points.
- Throughout your essay, incorporate the extract; data; personal knowledge or economic terms/concepts/theories/calculations.
 - Application must always be selective, relevant and developed; rather than just stating; it should clearly support your points.
- For evaluation, always evaluate the economic concept in the question first, before considering alternative methods.
- Include a judgement, which directly addresses the question, not just a summary of your essay.

Level Based Criteria

- 0 marks
 - Completely irrelevant

- Level 1 (1-4 marks)
 - Question has not been directly addressed, but is kind of relevant
 - Some basic knowledge, with little/no development, with limited viewpoints
 - Little/no application
 - No selectivity

- Level 2 (5-8 marks)
 - Points are relevant and valid
 - Basic development of more than one viewpoint
 - Partial application
 - Some evidence of selectivity

- Level 3 (9-12 marks)
 - Points are relevant, valid and selective
 - Strong and thorough development of more than one viewpoint
 - Strong and selective application, which supports points
 - Includes an insightful judgement, which directly addresses the question

Question

- Extract:
 - *Value Added Tax (VAT) is an indirect tax that must be added to the price of most food and household goods. The rate of VAT in South Africa was increased from 14% to 15% on 1st April 2018.*
 - *Both consumer spending and business confidence fell following this increase but a further rise in VAT is being discussed by the government. VAT is not currently added to the price of fruit, vegetables and bread.*
- Source:
 - Edexcel, IGCSE, Linear, Standard, Jan 2020, Paper 1, 4c
- Question:
 - With reference to the data above and your knowledge of economics, evaluate the usefulness of price elasticity of demand (PED) in helping the South African Government to decide whether to increase the rate of VAT. (12 marks)
- What is the FOCUS of this question?
 - The focus is PED! Whether it is useful or not.

- Possible points:
 - PED helps to calculate how much tax revenue they will get
- Possible evaluations:
 - PED is only an estimate
 - There could be other factors
 - General evaluations: Magnitude | Time-lag | Duration

Model Essay

- PED measures the responsiveness of quantity demanded to price changes. Increasing VAT from 14% to 15% will increase the cost of production for firms, who will then pass this on to consumer via higher prices. By calculating the PED of goods, the government can predict how quantity demanded will change, hence how much tax revenue (price x quantity) they will be able to get, hence why PED is useful. “Consumer spending and business confidence fell”, which suggests that overall, the PED for these goods were elastic, as an increase in price would have caused a more than proportionate decrease in quantity demanded, hence less revenue for the South African government; in this case, the PED is useful, as it suggest they should not increase VAT any further.
- However, PED is very hard to calculate, it requires a lot of data; it is very likely that the data may have some errors, hence may be misleading; they will never know if their estimate is actually correct. Even if the PED is correctly measured, it is constantly changing over time, hence will have to be constantly re-calculated, so the PED may not actually be useful in making decisions. Also, the government only increased VAT by 1%, this is a relatively small magnitude, and any impacts may be negligible, consumer spending and business confidence may have fell due to other factors, such as rising unemployment. Hence, calculating the PED based on this small government intervention may not be useful for the South African government, it could be that increasing VAT by a larger amount would give different results.
- To conclude, there are strong arguments on both sides. PED is useful for understanding how much revenue the government would expect to get, however, calculating PED is based on estimates, which could be wrong. Ultimately, although consumer spending and business confidence fell, there are other factors other than the tax, such as interest rates that could have contributed, so simply using PED may not be that useful.

➤ Points

- Price elasticity of demand (PED) measures the responsiveness of quantity demanded to a change in price
- After VAT in South Africa increased by 1% in 2018, many goods and services were more expensive, meaning that demand for goods with elastic demand ($PED > 1$) would have fallen by a larger percentage than the increase in price
- As consumer spending and business confidence fell, it is likely many goods on which VAT is imposed, will have an elastic demand. Therefore, the South African Government would receive less revenue from these goods following the increase in VAT
- By calculating PED, the government would be able to see the likely effect on demand following further VAT increases and therefore whether its revenue would increase or decrease following the rise

➤ Evaluation

- However, PED is only an estimate and actual demand may not be the same as the calculations suggest
- There may have been other factors affecting consumer spending and business confidence and so a further rise in VAT may not have the same effect as in 2018
- Goods and services such as fruit and vegetables may have an inelastic PED (< 1) but as these are considered to be necessities, the South African Government has made them exempt from VAT anyway
- PED would need to be calculated for many different products to allow an accurate prediction of the effect on government revenue
- It may depend how much the government proposes increasing VAT by, as another 1% rise will lead to different revenue outcomes for them compared to a larger increase
- PED may help the government decide whether to increase VAT again, but it may be better if used alongside other analysis of potential outcomes

Misconceptions & Mistakes

- Misinterpreting focus of the question:
 - The question is about usefulness of PED; for the government, they care because of their tax revenue
- Misconceptions:
 - VAT does not cause PED to change; this is not true and completely irrelevant

Examiner's Report

- A number of candidates tried to evaluate whether VAT should be increased and so failed to answer the question.
- Examiners were looking for responses which showed a balanced argument regarding whether PED could be useful in making the decision to increase VAT. Although understanding was shown, responses needed to be presented that analysed and evaluated economic information and used the data provided.
- Tip: Make sure you read the question carefully. A supported conclusion/judgement is needed for evaluate questions.