Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number | Candidate Number

Monday 18 May 2020

Morning (Time: 2 hours) | Paper Reference **9EC0/01**

Economics A

Advanced

Paper 1: Markets and Business Behaviour

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, centre number and candidate number.
- There are three sections in this question paper. Answer **all** questions from Section A and Section B. Answer **one** question from Section C.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

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

Turn over ▶

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Pearson

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Fuel duty is an excise tax imposed on the sale of petrol, included in the price paid by consumers, set at 58 pence per litre.

(Source: https://www.gov.uk/tax-on-shopping/fuel-duty)

(a) Draw a supply and demand diagram to show the incidence of a specific petrol tax on consumers and producers.

(4)



(b) The indirect tax on fuel is increased in a market in which the price elasticity of demand is −0.1. Which **one** of the following is the most likely effect on consumer and producer surplus?

(1)

☒ **A** Consumer surplus and producer surplus both decrease

☒ **B** Consumer surplus and producer surplus both increase

☒ **C** Consumer surplus decreases and producer surplus increases

☒ **D** Consumer surplus increases and producer surplus decreases

(Total for Question 1 = 5 marks)

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2 The external benefits of higher education include increased tax revenue, faster economic growth, greater innovation and labour market flexibility.

(Source adapted from: https://www.timeshighereducation.com/news/higher-education-its-good-for-you-and-society/2008681.article#survey-answer)

(a) Draw an externalities diagram to show the likely impact of the consumption of higher education.

(4)



(b) On average, in the UK, a working-age graduate earns approximately £10 000 more per year than a non-graduate.

(Source adapted from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/701720/GLMS_2017.pdf)

This suggests a university degree provides a substantial

(1)

- ☒ **A** external benefit
- ☒ **B** external cost
- ☒ **C** private benefit
- ☒ **D** social cost

(Total for Question 2 = 5 marks)

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3 The EU tradable pollution permits scheme is expected to become more effective by 2020, due to recent reductions in the number of tradable pollution permits.

(Source adapted from: https://ec.europa.eu/clima/policies/ets_en)

(a) Explain **one** likely effect of reducing the number of tradable pollution permits.

(4)

(b) Regulation of firms that pollute is likely to be a problem because it

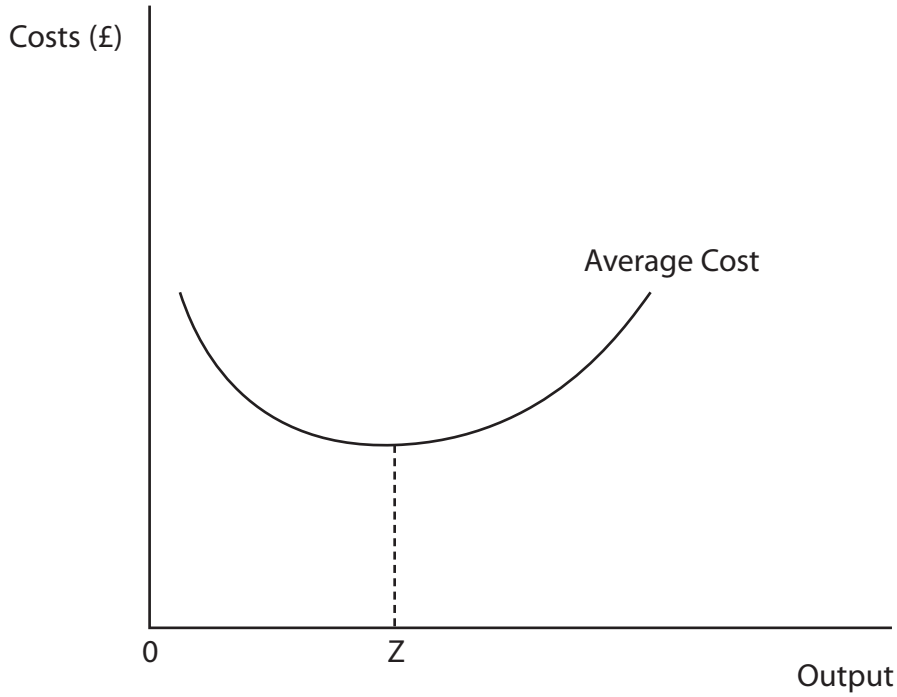
(1)

- ☒ **A** allows firms to use price signals
- ☒ **B** creates unintended consequences
- ☒ **C** fills information gaps for businesses
- ☒ **D** means lower administrative costs

(Total for Question 3 = 5 marks)

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4 The following illustrates the daily average cost curve for a doughnut producer:



(a) Explain what happens to total cost at output levels greater than Z.

(2)

(b) At output levels greater than Z, which **one** of the following correctly identifies what will happen to the cost?

(1)

		Average fixed cost	Average variable cost	Marginal cost
☒	**A**	Falls	Falls	Rises
☒	**B**	Falls	Rises	Rises
☒	**C**	Rises	Rises	Falls
☒	**D**	Rises	Rises	Rises

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(c) For a luxury doughnut producer the average selling price is £2. The average variable cost is 40% of the selling price and its fixed cost per day is £300. Calculate total costs per day assuming it produces 400 doughnuts per day.

(2)

(Total for Question 4 = 5 marks)

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5 'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e)

(a) Explain **one** likely reason why this business has remained small.

(2)

(b) Explain why the previous expansion of this business could be described as 'organic growth'.

(2)

(c) Assume 'Bettys' merges with a major tea leaf supplier. Which **one** of the following is most likely to be an advantage as a result of this merger?

(1)

- ☒ **A** External economies of scale will increase efficiency
- ☒ **B** Greater control to lower prices of tea
- ☒ **C** Industrial diversification increases risks
- ☒ **D** Lower monopoly power in the café market

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

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SECTION B

Read Figures 1, 2 and 3 and the following extracts (A and B) before answering Question 6.

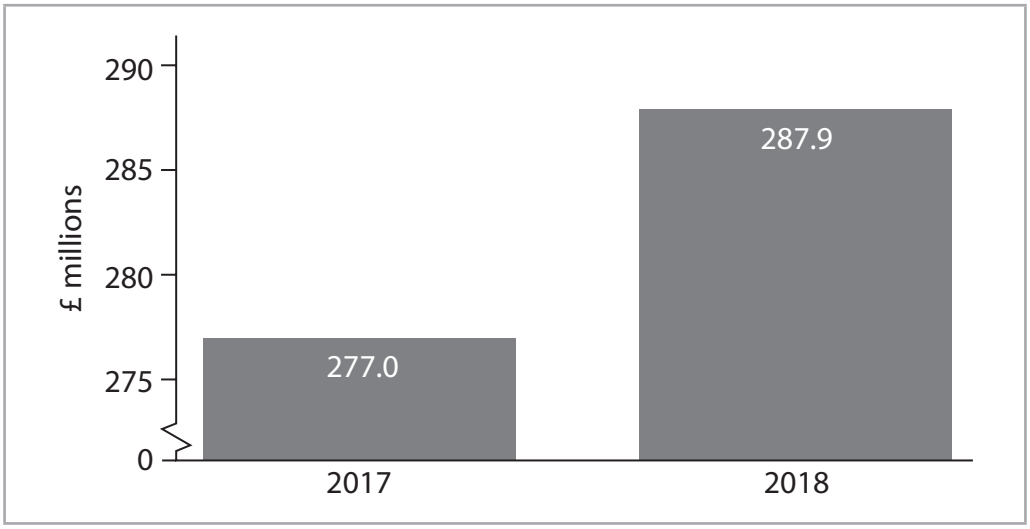
Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6

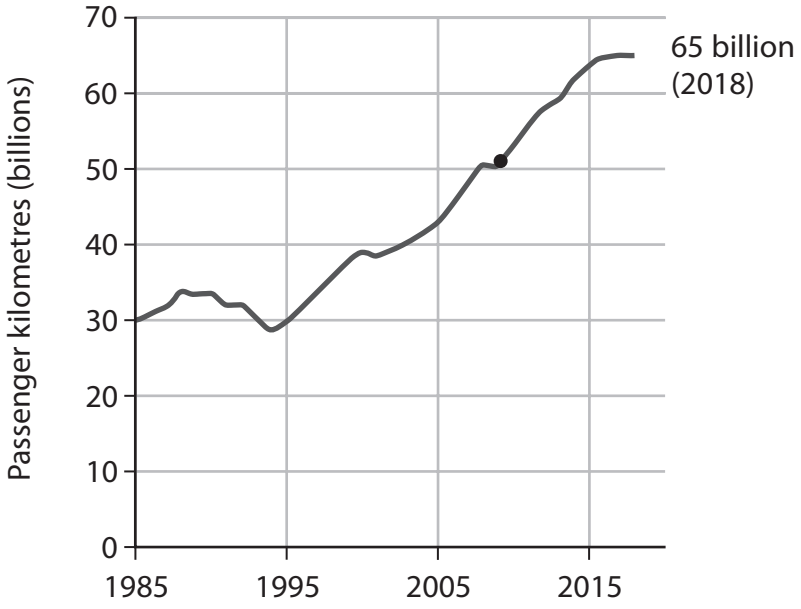
The UK Rail Industry

Figure 1: UK government subsidy to Northern, a train operating company in Northern England



(Source adapted from: https://www.theyworkforyou.com/wrans/?id=2018-10-18.181280.h)

Figure 2: Rail passenger kilometres travelled per year in the UK, billions



(Source adapted from: fullfact.org)

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Figure 3: Price of a single off-peak train journey, Edinburgh to Leeds Saturday 22nd December 2018 19:00 hours

Adult	Young Persons (16–25) Railcard
£105.30	£69.50

(Source: https://www.lner.co.uk/buy-tickets/booking-engine)

Extract A

The case for nationalisation

Privatisation has not made the rail industry cheaper to operate, despite the promise from one government source that it would see private companies bringing: "more competition, greater efficiency and a wider choice of services".

One reason, suggest the critics, is fragmentation. Instead of pushing British Rail into the private sector as a single supplier the government chose to break it into three components of track, train operators and rolling stock i.e. the trains and carriages. This has encouraged each part of the rail industry to prioritise its own profits rather than collaborating to improve the system.

Privatisation, meanwhile, never really worked. The rail network of 2 500 stations and 32 000 km of tracks was renationalised in 2001. This has encouraged the government's transport secretary, a supporter of private sector involvement, to argue that the state Network Rail monopoly should be removed so that companies can bid to build new rail lines to upgrade the railway.

The privately-owned train operators are now the subject of fierce criticism, due to overcrowding and cancelled services. Private companies are supposed to compete to win a bid to be the train operator for a region for a short number of years. However in recent years the number of private companies bidding or renewing their contract as rail operators has fallen. In May 2018 the government rescued the East Coast line by renationalising it. The line had been run by the private rail operator Virgin Rail, which was suffering lower passenger numbers and revenue than forecast.

Some argue that there is a simple solution: reunite track and train in the only feasible manner, nationalisation.

(Source adapted from: https://www.ft.com/content/d82848ca-f7ba-11e7-88f7-5465a6ce1a00)

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Extract B

Southern Rail boss paid £495 000

The Chief Executive of Southern Rail, the private-sector train operator that has become associated with delays, losses, cancellations and strikes, was paid £495 000 last year. This increased calls for nationalisation and a maximum wage for executives at companies with government contracts. In contrast the average base pay for a train driver in the UK is £47 705, although they can earn up to £63 000.

Nearly a third of Southern Rail trains were late in 2016 as it tried to deal with a labour dispute that involved extensive strike action. The rail trade unions are opposed to planned changes to the role of train guards, which they claim will put passenger safety at risk.

(Source adapted from: Rob Davies, The Guardian 10 April 2017
https://www.theguardian.com/business/2017/apr/10/southern-rail-boss-double-pay-rise)

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6 (a) Refer to Figure 1. Explain the likely effect of the change in subsidy levels between 2017 and 2018 on rail fares.

Include a supply and demand diagram in your answer.

(5)

(b) With reference to Figure 2, examine **two** possible factors which may have influenced demand for rail travel since 2008.

(8)

(c) Assess whether complete nationalisation of the rail industry might protect employees.

(10)

(d) With reference to Extract A, paragraph 3, discuss whether the rail network can be considered to be a natural monopoly.

(12)

(e) Discuss the likely benefits of price discrimination to rail passengers. Use a diagram to support your answer.

(15)

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(8)

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(d) With reference to Extract A, paragraph 3, discuss whether the rail network can be considered to be a natural monopoly.

(12)

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

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SECTION C BEGINS ON THE NEXT PAGE

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes on this section.

EITHER

7 The International Energy Agency has predicted that oil use by cars will peak in 2025 because of the increasing number of drivers switching to electric vehicles.

(Source adapted from: https://www.thetimes.co.uk)

Evaluate the likely microeconomic consequences of consumers shifting from vehicles powered by fuel obtained from oil to electric-powered vehicles.

(Total for Question 7 = 25 marks)

OR

8 'Amazon.com, the giant online retailer, has too much power.' It uses its market power to put a squeeze on publishers, in effect driving down the prices it pays for books. If a publisher refuses, Amazon may take action by 'delaying their delivery, raising their prices, and steering customers to other publishers'.

(Source adapted from: https://www.nytimes.com)

Evaluate the likely costs of a monopsony operating in a market such as book retailing.

(Total for Question 8 = 25 marks)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 7** ☒ **Question 8** ☒

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TOTAL FOR SECTION C = 25 MARKS
TOTAL FOR PAPER = 100 MARKS

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