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Surname	Other names

Pearson Edexcel Level 3 GCE

Centre Number	Candidate Number

Economics A

Advanced Subsidiary

Paper 1: Introduction to Markets and Market Failure

Monday 15 May 2017 – Morning
Time: 1 hour 30 minutes

Paper Reference
8EC0/01

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 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.*
- 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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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 25 minutes on this section.

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

1 The production possibility frontier for an economy is shown in the table below.

Capital goods output (million units)	Consumer goods output (million units)	Opportunity cost
0	42	–
10	40	
20	36	
30	30	
40	22	
50	12	
60	0	

(a) Explain, using marginal analysis from the table above, the concept of opportunity cost. (You may use the last column in answering the question.)

(3)

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(b) Which **one** of the following is the most likely effect of an economy producing more capital goods?

(1)

- ☒ **A** Reduced specialisation of labour
- ☒ **B** A shift in the production possibility frontier
- ☒ **C** A reduction in marginal utility
- ☒ **D** A shift in demand for consumer goods

(Total for Question 1 = 4 marks)

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2 The table below shows UK wheat production between 2010 and 2015.

Year	Wheat production ('000 tonnes)	Index numbers of wheat production (2010 is base year)
2010	14 878	100
2011	15 257	
2012	13 261	
2013	11 921	80.1
2014	16 606	111.6
2015	16 129	108.4

(Source: adapted from https://www.gov.uk/government/uploads/system/uploadsattachment_data/file/466383/farming-statistics-2015-wheat-and-barley-production-uk.pdf)

(a) Define the term 'base year'.

(1)

.....

.....

(b) Calculate the index numbers for 2011 and 2012, using 2010 as the base year.

(2)

.....

.....

.....

.....

(c) The percentage change in wheat production from 2014 to 2015 was:

(1)

☒ **A** 0.03

☒ **B** –2.87

☒ **C** –2.95

☒ **D** –477

(Total for Question 2 = 4 marks)

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3 In 2015 the UK government cut subsidies for the installation of solar energy panels.

(a) Define the term 'subsidies'.

(1)

.....

.....

(b) The most likely effect of cutting subsidies for the installation of solar panels is to:

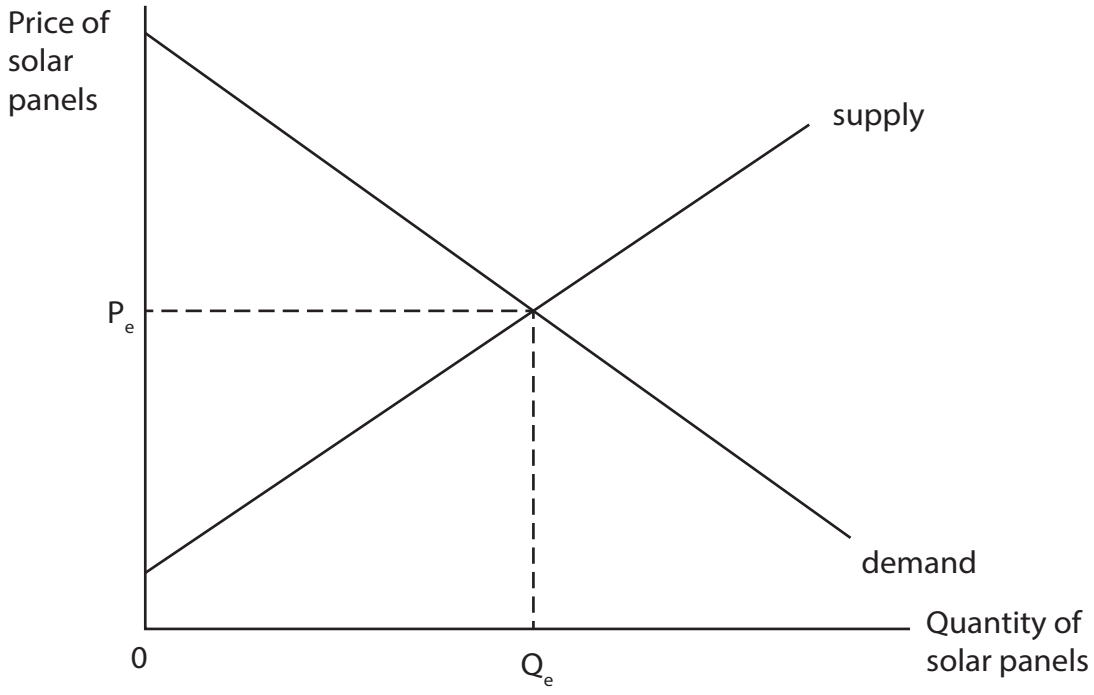
(1)

- ☒ **A** increase producer surplus
- ☒ **B** decrease the provision of public goods
- ☒ **C** decrease consumer surplus
- ☒ **D** increase government expenditure

(c) Annotate the diagram below to show the effect of removing the solar panel installation subsidy on the equilibrium price and quantity.

(2)

Solar panel installation market diagram



(Total for Question 3 = 4 marks)

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4 The excess supply of carbon steel has recently caused its global price to fall below $530 per tonne.

(Source: adapted from http://www.meps.co.uk/allproducts%20steel%20price.htm)

(a) Explain how the price mechanism responds to excess supply in a free market.

(3)

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Steel production leads to high levels of carbon emissions.

(b) Which **one** of the following is likely to result in an increase in carbon emissions?

(1)

- ☒ **A** Introducing a tradable pollution permits scheme
- ☒ **B** Shutting down steel factories
- ☒ **C** Subsidising the steel industry to install cleaner technology
- ☒ **D** Reducing indirect taxes on steel products

(Total for Question 4 = 4 marks)

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5 Universities UK raised concerns about the proposal to reduce the maximum tuition fees (fee cap) for undergraduate courses in England from £9 000 to £6 000. It stated "This unfunded proposal to reduce the fee cap would damage the quality of experience our universities could deliver to students and remove opportunities for those seeking to benefit from a university education".

(Source: adapted from tuition fees 2015 Times letter Universities UK http://www.universitiesuk.ac.uk/highereducation/Pages/UUKboardFeesLetter.aspx#.VjoQRbfhDIU)

(a) Explain why reducing the tuition fee cap may result in excess demand for university places.

(3)

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(b) Which **one** of the following statements is correct?

(1)

- ☒ **A** The marginal social benefits exceed the marginal private benefits from university education
- ☒ **B** University education is an inferior good
- ☒ **C** University education is a public good
- ☒ **D** The social optimum equilibrium quantity is less than the market equilibrium quantity for university education

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

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

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

Question 6

The market for cigarettes

Figure 1: Price elasticity of demand - a comparison between tobacco and e-cigarettes

Price of packet of 20 tobacco cigarettes £7.70–£9.50	Price of e-cigarette kit £9.99–£19.99
Average price per tobacco cigarette 48p	Single cigarette equivalent price of an e-cigarette 7p
Price elasticity of demand for tobacco cigarettes –0.35	Price elasticity of demand for e-cigarettes –1.9

(Source: adapted from https://www.blucigs.co.uk/united-kingdom/kits/all-kits)

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Extract A

Government intervention on tobacco

There was a time when smoking was fashionable. Television and magazine advertisements glorified smoking. Everyone from your dad to your doctor smoked in all places – cars, restaurants and even hospitals.

Tobacco is still the single biggest cause of cancer in the world and the leading cause of preventable deaths. Nearly 80% of the 1 billion smokers worldwide live in low- and middle-income countries.

Bans on tobacco advertising, promotion and sponsorship can reduce tobacco consumption. Comprehensive smoking bans covering indoor workplaces, public places and public transport have been introduced in 48 countries.

Tobacco taxes are the most cost-effective way to reduce tobacco use, especially among the young and people in low-income groups. A tax increase that raises tobacco prices by 10% decreases tobacco consumption by 4% in high-income countries and 5% in low- and middle-income countries.

However, some 8 million people are expected to die each year by 2030 – because they have smoked tobacco or have been exposed to passive smoking. The use of alternative products such as electronic cigarettes (e-cigarettes) are gaining in popularity but information about their effects is uncertain. Little research has yet been done about the long-term health effects of e-cigarettes and the nicotine dispensed by e-cigarettes is highly addictive. The illegal tobacco market still counts for 1 in every 10 cigarettes consumed globally. In addition, tobacco companies still spend tens of billions of dollars each year on advertising and promoting tobacco products and sponsoring events. They continuously challenge the regulatory measures governments are taking.

(Source: adapted from http://www.who.int/topics/tobacco/en/ and http://www.who.int/mediacentre/commentaries/reducing-tobacco-use/en/)

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Extract B

Free market approach

Are free markets incompatible with good health? If the solution to every problem involves banning advertising, raising prices and restricting availability, you might easily conclude that the free market is the disease and government regulation is the cure. From this perspective, the providers of food, alcohol and tobacco are determined to push the most unhealthy products on the public at the lowest prices.

Contrary to this viewpoint, the profit motive is not unhealthy. Businesses have an obvious incentive to keep their customers alive and customers have a strong incentive to seek out healthier options. Any company that can make a scientifically sound health claim gains a competitive advantage over its rivals. Health sells. In contrast, government regulation can lead to negative health outcomes. Markets can correct themselves long before government failures are even acknowledged. Over a million Britons, almost all of whom are smokers or ex-smokers, use e-cigarettes, as a less hazardous product than cigarettes and yet e-cigarettes face increased regulations and in many countries they are banned.

It is neither consistent nor ethical to prevent smokers from switching to much safer alternatives. Efforts to regulate e-cigarettes are a far greater threat to public health than the products themselves.

We argue that the interests of consumers are nearly always better advanced by the provision of accurate information and free choice than by prohibitions and regulations. The government policy of small but steady tax rises on tobacco and ever-larger warning labels is becoming less effective and leads to unintended consequences.

(Source: adapted from http://www.iea.org.uk/blog/free-market-solutions-in-health-should-be-allowed-to-flourish, Christopher Snowdon, 11th July 2013)

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6 (a) Explain why 'bans on tobacco advertising' (Extract A, line 7) may result in a decrease in the revenue of tobacco firms. Include a supply and demand diagram in your answer.

(5)

(b) With reference to the information provided and your own knowledge, assess the view that tobacco consumers switching to e-cigarettes is an example of rational behaviour.

(10)

Tobacco cigarettes and e-cigarettes are considered to be substitutes.

(c) Explain how changes in the price of tobacco cigarettes may affect the demand for e-cigarettes over time.

(6)

(d) With reference to Extract A, lines 11–13, calculate the price elasticity of demand for tobacco cigarettes in high-income countries and in low-middle-income countries. You are advised to show your working.

(4)

(e) With reference to Figure 1, assess the likely reasons for the difference in price elasticity of demand for tobacco cigarettes and e-cigarettes.

(15)

EITHER

(f) Evaluate the possible advantages of a free market approach to cigarette consumption.

(20)

OR

(g) Evaluate the impact of government intervention in the cigarette market.

(20)

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6 (a) Explain why 'bans on tobacco advertising' (Extract A, line 7) may result in a decrease in the revenue of tobacco firms. Include a supply and demand diagram in your answer.

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(4)

High-income countries

Low-middle-income countries

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(15)

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EITHER

(f) Evaluate the possible advantages of a free market approach to cigarette consumption.

(20)

OR

(g) Evaluate the impact of government intervention in the cigarette market.

(20)

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 6(f)** ☐ **Question 6(g)** ☐

Write your answer here:

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(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS
TOTAL FOR PAPER = 80 MARKS

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