Write your name here

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 14 May 2018 – 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 **Statement 1:** Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

(a) Which **one** of the following best describes the two statements above?

(1)

		Statement 1	Statement 2
☒	**A**	Normative	Normative
☒	**B**	Normative	Positive
☒	**C**	Positive	Normative
☒	**D**	Positive	Positive

(b) Cuba's population is estimated to be 11 million. With reference to Statement 1 above, calculate the estimated number of doctors in Cuba. You are advised to show your working.

(2)

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(c) Define the term 'command economy'.

(1)

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(Total for Question 1 = 4 marks)

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2 In February 2016 the Daily Mail newspaper increased its price from 60p to 65p. By August 2016 its sales had fallen by 5.41%.

(a) Ceteris paribus, calculate the price elasticity of demand for the Daily Mail newspaper over this period. You are advised to show your working.

(2)

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(b) Which **one** of the following is most likely to be a determinant of price elasticity of demand for the Daily Mail newspaper?

(1)

- ☒ **A** Availability of rival newspapers
- ☒ **B** Change in population size
- ☒ **C** Decrease in the cost of producing the Daily Mail newspaper
- ☒ **D** Expected rise in the price of the Daily Mail newspaper

(c) Define the term 'ceteris paribus'.

(1)

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(Total for Question 2 = 4 marks)

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3 In the UK charges for dental treatment vary. For example, the following charges can be made for a tooth filling:

- National Health Service (NHS) dental treatment £50.50
- Private dental treatment £95–£700

A dentist can choose to offer NHS treatment, private treatment or both.

(a) Using the data above, which **one** of the following is a function of the price mechanism in the market for private dental care?

(1)

- ☒ **A** Acting as a signal to dentists when deciding whether to provide private dental treatment
- ☒ **B** Eliminating a shortage of private dentists by allowing the price of private treatment to fall
- ☒ **C** Encouraging government intervention to set dental care targets
- ☒ **D** Incentivising private dentists to offer only NHS treatment

(b) Explain **one** possible reason why the state provides NHS dental treatment.

(2)

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(c) Define the term 'asymmetric information'.

(1)

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(Total for Question 3 = 4 marks)

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4 Between 2013 and 2015, median household income in the UK increased from £24 200 to £25 700. Over the same period the demand for bus travel fell by 3%.

(a) Which **one** of the following is the most accurate explanation of the term 'median household income'?

(1)

- ☒ **A** The difference between the highest level of household income and the lowest level of household income
- ☒ **B** The middle household income after placing all household incomes in numerical order
- ☒ **C** The most frequently occurring level of household income
- ☒ **D** Total household income divided by the number of households

(b) Using the data provided, explain whether bus travel is a normal good or an inferior good.

(3)

(Total for Question 4 = 4 marks)

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5 The British Broadcasting Corporation (BBC) is a TV broadcaster. It is financed through an annual TV licence fee of £145.50. At this fee level many TV owners benefit from consumer surplus.

(a) Define the term 'consumer surplus'.

(1)

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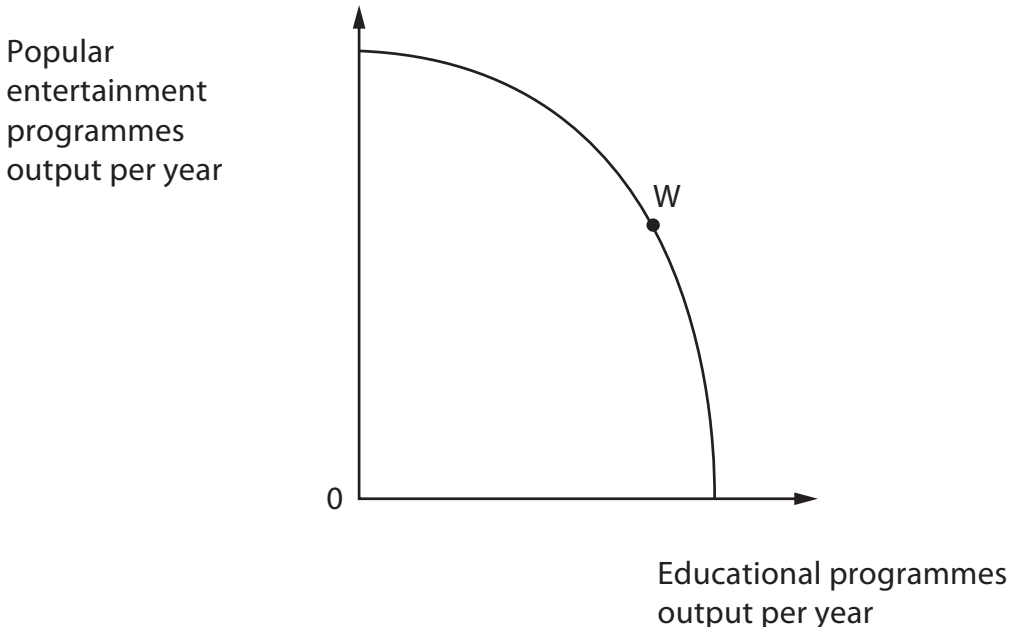
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(b) The diagram shows the production possibility frontier for the BBC. Assuming the BBC is at point W, annotate the diagram to show the opportunity cost of providing more educational programmes.

(2)



(c) BBC programmes are often referred to as being public goods. This is because:

(1)

☒ **A** all BBC programmes are financed by the public sector

☒ **B** the BBC is the most popular broadcaster in the UK

☒ **C** the consumption of these programmes is non-rivalrous

☒ **D** there are external benefits from the consumption of many BBC programmes

(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 to C) before answering Question 6.

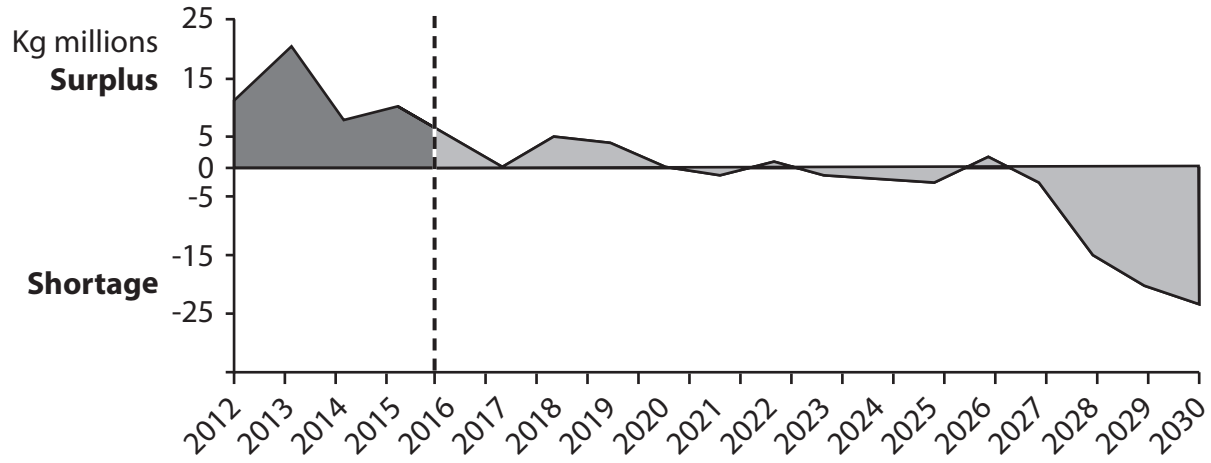
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

Energy markets

Figure 1: Annual surplus or shortage of uranium, measured in millions of kilograms



Figures from 2016 are forecast

(Source: adapted from http://www.telegraph.co.uk/business/2016/11/20/uranium-the-unloved-metal-whose-price-is-poised-to-go-radioactiv/)

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Extract A

Uranium: the unloved metal

Uranium is a fuel source for nuclear energy production. The price of uranium has fallen to a 13-year low. Uranium is a relatively common metal but locating it in the right concentrations can be difficult. Australia has the biggest known resource of uranium, followed by Kazakhstan. Kazakhstan's production has increased significantly since 2007, accounting for a large proportion of the surplus of this metal. Given the large stockpiles of uranium some firms have ceased production.

The biggest impact on the uranium market has been the devastating accident at the nuclear power station in Fukushima, Japan, in 2011. The accident caused a leak of radiation. The accident reduced confidence in the entire nuclear industry, as high doses of radiation leaks increase the risk of cancer. In addition the high cost of safely storing radioactive waste has delayed the building of new nuclear power stations. Japan initially closed all of its 50 nuclear power stations which reduced the demand for uranium. But it has since concluded that nuclear power must be part of its mix of energy suppliers.

Despite this setback in 2016 work started on a new uranium mine in Spain to meet the expected rise in demand for the metal. Uranium is a controlled material, so mining companies have to comply with many regulations before opening a new mine. When it opens in 2018, this will be the only uranium mine in Europe, producing 2.2 million kilos a year. It has been in development for more than a decade.

Most developed countries, with the notable exception of Germany, have concluded that nuclear power is an essential part of their energy supply. The US and UK are committed to building new nuclear power stations, the latter providing a £30 billion subsidy to build a new nuclear plant at Hinkley Point. China is also building a further 60 nuclear power stations.

Supporters of nuclear power say it provides a reliable source of energy at a time when the world's population is increasing, unlike solar power and wind power which both vary with the weather. In addition they argue that no country can significantly reduce carbon emissions, which are causing climate change, without nuclear. France and the UK have committed themselves to shut down all coal-fired power stations by 2025. So demand for uranium over the next two decades seems guaranteed.

(Source: adapted from Uranium: the unloved metal whose price is poised to go radioactive, Jon Yeomans, The Telegraph, 20 November 2016 http://www.telegraph.co.uk/business/2016/11/20/uranium-the-unloved-metal-whose-price-is-poised-to-go-radioactiv/)

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Extract B

Irrational consumers pay the price

The UK Government has announced that it might introduce maximum price controls on energy used by households.

The UK's largest energy suppliers are braced for what could be the industry's most significant government intervention following a decade of rising energy bills and low numbers of consumers switching between energy providers.

The Prime Minister promised to intervene because the energy market is "manifestly not working" for consumers. Energy prices have risen by 158% in the last 15 years, and four million households, especially those on low incomes, are still on the most expensive energy rates.

Some energy analysts have warned the Government against taking a highly interventionist approach that could undermine the energy market and leave customers paying higher prices in the future.

(Source: adapted from http://www.telegraph.co.uk/business/2017/03/22/governments-pledge-cut-energy-prices-risks-leaving-consumers/)

Extract C

The economics of climate change

Rising carbon dioxide emissions result from the increase in the use of coal, gas and oil in transport and for energy production. In addition, deforestation, food production and processing methods make the problem worse. These carbon emissions are causing a rise in global average temperatures, known as climate change. Climate change could cause hundreds of millions of people to suffer hunger, water shortages and coastal flooding.

Three elements of policy are required for an effective global response to reduce carbon emissions. The first is the pricing of carbon, implemented through tax, trading pollution permits or regulation. The second policy is to support innovation and the deployment of low-carbon technologies. And the third is action to remove barriers to energy efficiency, and to inform, educate and persuade individuals about what they can do to respond to climate change.

(Source: adapted from www.sternreview.org.uk/)

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6 (a) With reference to Figure 1 and Extract A, explain why the price of uranium has 'fallen to a 13-year low' (Extract A, lines 2 and 3) in 2016. Include a supply and demand diagram in your answer.

(5)

(b) With reference to Extract A and your own knowledge, assess whether the supply of uranium is likely to be price elastic or price inelastic.

(10)

(c) With reference to Extract B, explain **two** likely reasons why many consumers of energy have not switched to suppliers offering lower prices.

(6)

(d) Using examples from the information provided, explain what is meant by renewable and non-renewable energy.

(4)

The UK Government is considering introducing a maximum price for energy.

(e) Discuss the likely microeconomic effects of this decision on energy producers **and** consumers. Include a supply and demand diagram in your answer.

(15)

EITHER

(f) Using the concept of external costs, evaluate whether nuclear power is under-provided or over-provided in the energy market. Use an appropriate diagram in your answer.

(20)

OR

(g) Evaluate ways in which government intervention could be used to reduce carbon emissions. Use at least one appropriate diagram in your answer.

(20)

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(6)

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(20)

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(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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