Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel Level 3 GCE

Monday 15 May 2023

Morning (Time: 1 hour 30 minutes)

Paper reference **8EC0/01**

Economics A

Advanced Subsidiary

PAPER 1: Introduction to Markets and Market Failure

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 In 2021, energy regulator Ofgem announced that the maximum price of energy will rise from £1 277 to £1 971 a year, for the average household bill.

(Source: adapted from https://www.moneysavingexpert.com/utilities/what-is-the-energy-price-cap/)

(a) Which **one** of the following is the percentage increase in the maximum price to the average household bill?

(1)

☒ **A** 35%

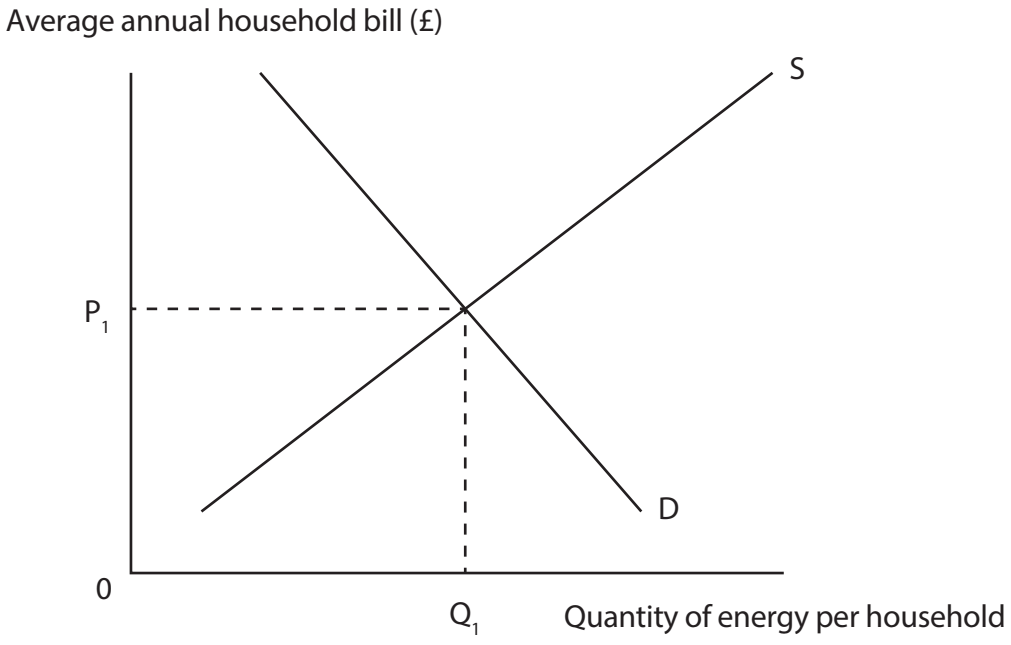
☒ **B** 45%

☒ **C** 54%

☒ **D** 694%

(b) Annotate the diagram below to show the original **and** new maximum price in this market.

(2)



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(c) Define the term 'equilibrium price'.

(1)

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(Total for Question 1 = 4 marks)

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2 The world's largest producer of natural gas is the USA. In 2021 production fell even though the price increased.

(a) Using the data provided, explain **one** likely factor that may influence the price elasticity of supply of gas.

(3)

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(b) The table below shows estimates of the price elasticity of supply and price elasticity of demand for gas.

	Natural Gas
Price elasticity of supply	+0.14
Price elasticity of demand	−0.10

(Source: adapted from http://www.usaee.org/usaee2013/submissions/Abs/Ponce_Neumann_Elasticities_gas_supply.pdf, http://www.mackinac.org/1247)

Which **one** of the following can be inferred from the table?

(1)

☒ **A** A 10% increase in the price of gas would cause a more than 10% increase in the supply

☒ **B** Gas is a normal good with income inelastic demand

☒ **C** The demand and supply of gas are both price inelastic

☒ **D** The demand for gas is more responsive to changes in price than supply

(Total for Question 2 = 4 marks)

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3 Disruption in the supply chains of essential goods and shortages of key medical products during the global health crisis have highlighted the links between countries and renewed the debate on the advantages and disadvantages of specialisation.

(Source: adapted from https://commonslibrary.parliament.uk/research-briefings/cbp-8978/)

(a) Define the term 'specialisation'.

(1)

(b) Which **one** of the following is a positive economic statement?

(1)

- ☒ **A** Disruption to global supply chains will reduce the level of trade
- ☒ **B** Supply chain disruption is the most important issue facing governments
- ☒ **C** The free market leads to the best allocation of resources
- ☒ **D** The government ought to increase healthcare spending

(c) Explain **one** likely advantage of specialising in the production of goods to trade.

(2)

(Total for Question 3 = 4 marks)

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4 During 2021 the UK experienced severe shortages of crisps, petrol and many other items.

(Source: adapted from https://www.independent.co.uk/news/business/news/uk-shortages-covid-brexit-supply-chain-b1968458.html)

(a) Explain **one** reason why it is rational for a firm to raise prices when there is excess demand.

(3)

Esso, Tesco and Sainsbury's all charge £ 1.48 for a litre of petrol.

(b) Which **one** of the following is the most likely cross price elasticity of demand for close substitutes?

(1)

- ☒ **A** – 2.1
- ☒ **B** – 0.1
- ☒ **C** + 0.1
- ☒ **D** + 2.1

(Total for Question 4 = 4 marks)

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5 During the global health crisis, 11.7 million jobs were furloughed, costing the UK Government £70 billion. This meant people were paid by the government 80% of their wages even though they did not work. Some private sector employers continued to pay the remaining 20%.

(Source: adapted from https://commonslibrary.parliament.uk/examining-the-end-of-the-furlough-scheme)

(a) With reference to the above information, define the term 'mixed economy'.

(2)

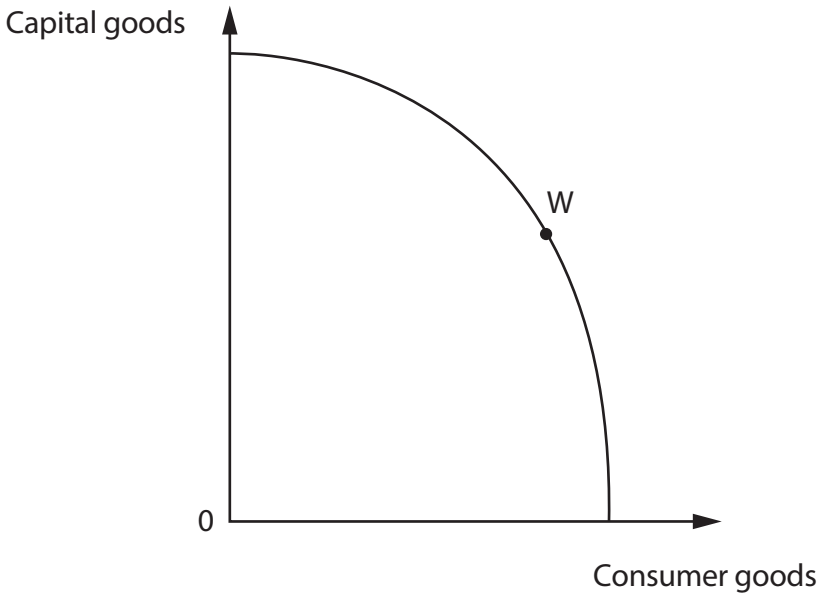
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(b) The diagram shows the production possibility frontier of an economy. Assuming the economy is at point W, annotate the diagram to show the opportunity cost of producing more consumer goods.

(1)



(c) Which **one** of the following is a likely advantage of a command economy?

(1)

- ☒ **A** Low levels of unemployment
- ☒ **B** Price acts as a signal to allocate resources
- ☒ **C** Price controls cause shortages of goods
- ☒ **D** The profit motive gives firms the incentive to be more efficient

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

Read Figures 1 and 2 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 and 5 minutes on this section.

Question 6

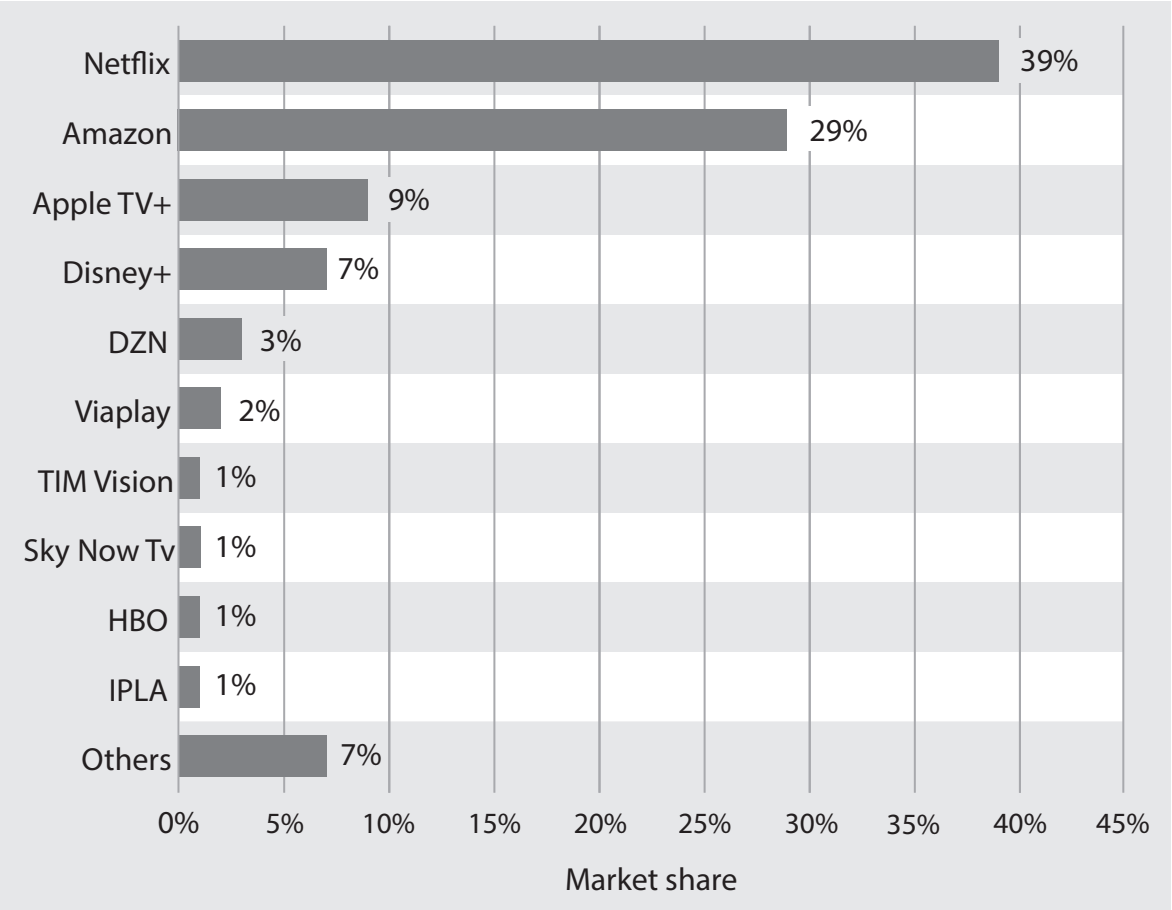
The market for television content

Figure 1: Elasticities of demand for streamed television services, UK, 2021

Price elasticity of demand	–0.6
Income elasticity of demand	1.6

(Source: adapted from https://www.consultancy.uk/news/24986/covid-19-presents-netflix-with-chance-to-hike-prices)

Figure 2: Market shares of streamed content providers, Europe, 2021



(Source: adapted from Statista 2021)

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Extract A

The growth of streamed television content

Netflix currently has 13 million UK subscribers, who typically pay £9.99 a month to the US based private sector firm. At this price, up to two users can view the television content at the same time. The demand for individual firms' streamed television content boomed when people were forced to stay at home and has only begun to slow recently as more firms enter the market e.g. Amazon Prime Video.

The launch of Disney+ at the end of 2019, including original content such as the £74 million *Star Wars* TV spin-off *The Mandalorian*, resulted in the service adding more UK subscribers in a year in 2020 than any other streaming platform has ever managed.

However, the costs of providing streaming television content have risen. Consumers now expect original content, for example *Stranger Things* which costs around £10 million an episode to make. Furthermore, advertising in a saturated market is expensive.

In 2021, Netflix put up the price of its most-popular package by £1 a month to £9.99. Fortunately for Netflix, its subscriber demand has proven price inelastic. Just 3% of customers in a survey said they would definitely cancel their subscription after Netflix's latest price rise.

(Source: adapted from 'As UK hits peak, Netflix the streaming giant will have to work harder', The Guardian, Monday 3 January 2022)

Extract B

Is television content a public good?

Public service broadcasting in the UK is made up of a number of parts. First, there are the main UK-wide public service broadcasters (PSBs). There is the publicly funded BBC, and the publicly owned Channel 4 which is funded through advertisements.

The BBC was established in 1922 by a Royal Charter. It is mainly funded through the TV licence fee, which costs £159 a year and is a compulsory charge for those who watch live TV on any device. Live TV and catch-up services are free to view and do not restrict household usage. Without the licence fee very few people would pay due to the free rider problem.

The BBC's Charter sets out its five public purposes:

- To provide impartial news and information
- To support learning for people of all ages
- To show the most creative, highest quality and distinctive televised content
- To provide content for minority groups which would not be profitable for a private firm
- To reflect the UK, its culture and values to the world.

(Source: adapted from https://publications.parliament.uk/pa/cm5801/cmselect/cmcumeds/156/15604, and 'BBC licence fee to be abolished in 2027 and funding frozen', The Guardian, Sunday 16 January 2022)

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Extract C

The environmental impact of streaming television content

The carbon footprint produced by watching a month of Netflix programmes is equivalent to driving a car to Saturn. Every activity in the chain required to stream video, from the use of huge datacentres and transmission over Wi-Fi and broadband to watching the content on a device, requires electricity. The majority of this is generated by emitting CO^2. Modern flatscreen televisions use significant amounts of energy.

There's very little a government can do about this in a free market dominated by US firms. The focus of any government intervention could be to encourage alternative forms of entertainment and recreation, support the development of more energy efficient devices, to improve information on the environmental effects or to use regulation to limit viewing hours.

(Source: adapted from 'Streaming's dirty secret: how viewing Netflix top 10 creates vast quantity of CO2', The Guardian, Friday 29 October 2021)

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6 (a) With reference to Figure 1 and Extract A, explain the relationship between price elasticity of demand and total revenue.

(5)

(b) With reference to Extract B, explain **two** external benefits associated with the consumption of 'public service broadcasting' (line 2).

(6)

(c) 'Television content is a public good' (Extract B). Assess this statement.

(10)

(d) Using examples from the information provided, explain what is meant by both 'substitutes' and 'complementary goods'.

(4)

(e) Discuss likely reasons why the market price of streaming television content is increasing. Draw a supply and demand diagram to support your answer.

(15)

EITHER

(f) Evaluate possible methods of government intervention to reduce the environmental damage caused by the consumption of television content.

(20)

OR

(g) Evaluate the possible disadvantages of a free market approach to the provision of television content.

(20)

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(4)

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(20)

OR

(g) Evaluate the possible disadvantages of a free market approach to the provision of television content.

(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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