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 11 May 2020

Morning (Time: 1 hour and 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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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 25 minutes on this section.

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

1 (a) Define the term 'free market economy'.

(1)

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(b) Which **one** of the following is the best example of the rationing function of the price mechanism?

(1)

☒ **A** An increase in demand, leading to a rise in price, will encourage new firms to enter the market

☒ **B** Changes in price provide information to both producers and consumers

☒ **C** If a product is scarce, a rise in price is likely to make the shortage worse

☒ **D** When there is a shortage of a product, the price will rise and discourage some consumers from buying the product

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(c) Explain **one** advantage of a free market economy compared to a command economy.

(2)

(Total for Question 1 = 4 marks)

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2 (a) The income elasticity of demand for bus travel is estimated to be –1.5.
This implies that:

(1)

☒ **A** a 10% increase in fares will lead to a 15% decrease in passengers

☒ **B** as unemployment falls, more people will use buses

☒ **C** bus travel has a negative cross elasticity of demand compared to rail travel

☒ **D** bus travel is an inferior good

(b) Explain why a firm might try to reduce the price elasticity of demand for its products.

(3)

(Total for Question 2 = 4 marks)

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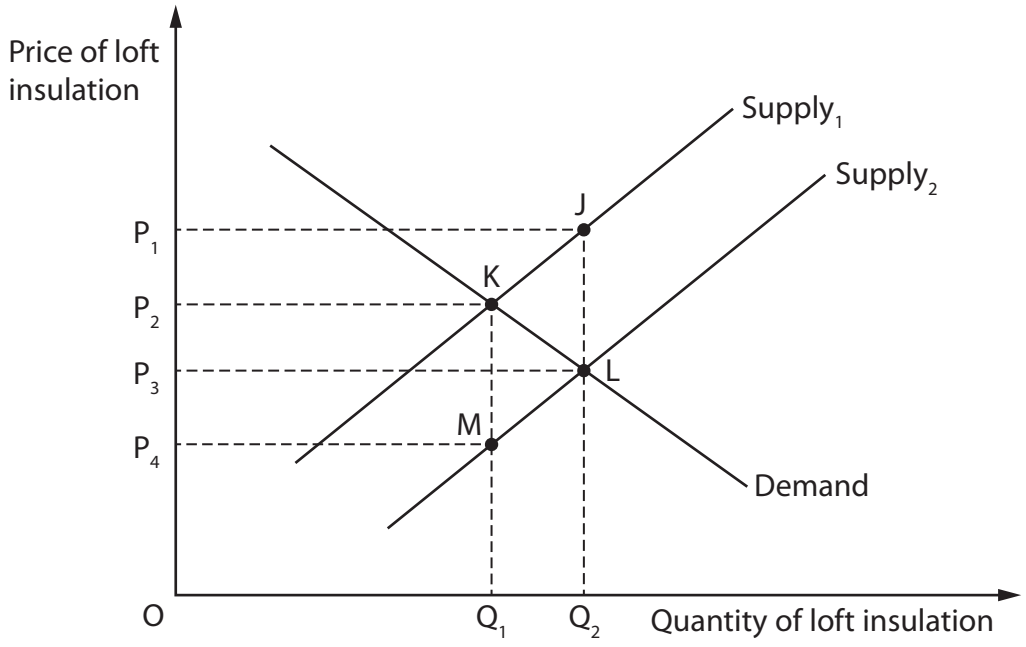
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QUESTION 3 BEGINS ON THE NEXT PAGE.

3 The 'Energy Company Obligation' is the government's term for its programme to make houses in the UK more energy efficient.

(a) In the diagram below, the government grants a subsidy to energy suppliers to install loft insulation. This shifts the market supply curve for loft insulation from $Supply_1$ to $Supply_2$.



The total amount spent by the government on subsidies is represented by the area:

(1)

- ☒ **A** OP_1JQ_2
- ☒ **B** OP_3LQ_2
- ☒ **C** P_3P_1JL
- ☒ **D** P_4P_2KM

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(b) Explain an opportunity cost to the government of granting subsidies to energy suppliers to install loft insulation.

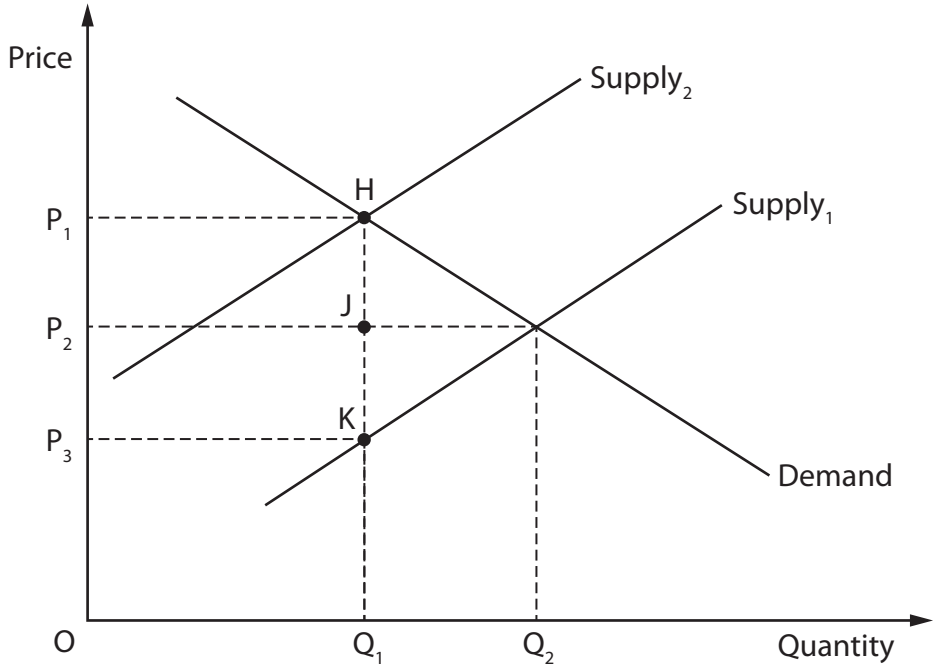
(3)

(Total for Question 3 = 4 marks)

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4 The UK Government uses a range of indirect taxes to affect the market prices and quantities of many goods and services.

(a) In the diagram below, the government imposes a specific tax on a product. This shifts the supply curve from $Supply_1$ to $Supply_2$.



The government's tax revenue is shown by the area:

(1)

- ☒ **A** OP_1HQ_1
- ☒ **B** P_2P_1HJ
- ☒ **C** P_3P_1HK
- ☒ **D** P_3P_2JK

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(b) Using an example, explain why the government imposes **specific** taxes on many goods and services.

(3)

(Total for Question 4 = 4 marks)

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5 HS2 is a high-speed rail network linking the north and south of England. HS2 will be four years late and cost double the Department for Transport's original estimate.

(Source: https://www.transportxtra.com/publications/local-transport-today/news/58459/hs2-will-be-four-years-late-and-cost-double-the-dft-s-estimate-mps-told)

(a) Define the term 'government failure'.

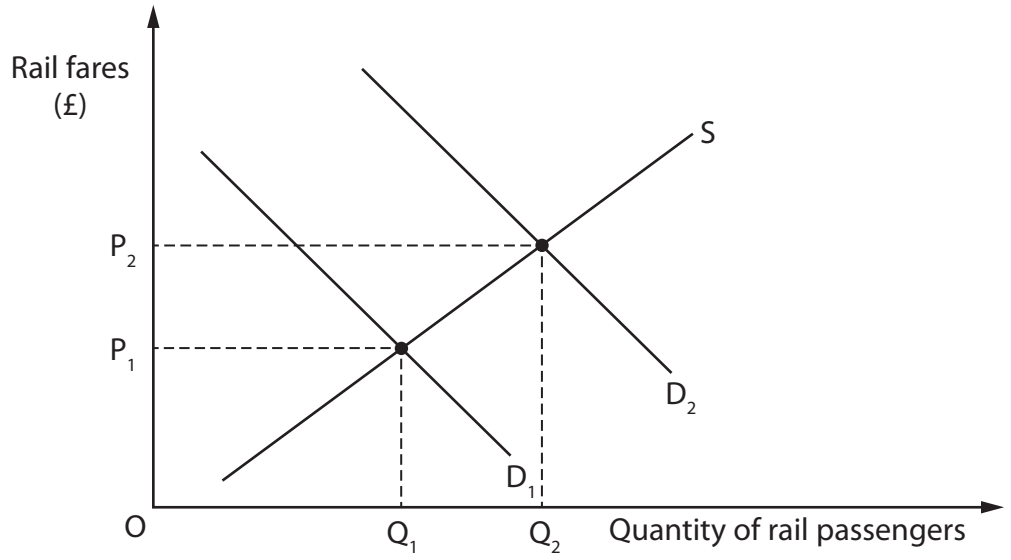
(1)

(b) Explain **one** likely microeconomic reason why the government is using taxpayers' money to fund HS2.

(2)

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(c) The diagram below shows the demand for and supply of passenger rail services.



The shift of the demand curve from D_1 to D_2 is most likely to result from a:

(1)

- ☒ **A** government decision to impose a tax on workplace parking
- ☒ **B** government decision to increase subsidies for rail travel
- ☒ **C** planned expansion of the government's railway track building programme
- ☒ **D** reduction in the tax imposed on a litre of petrol

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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SECTION B

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

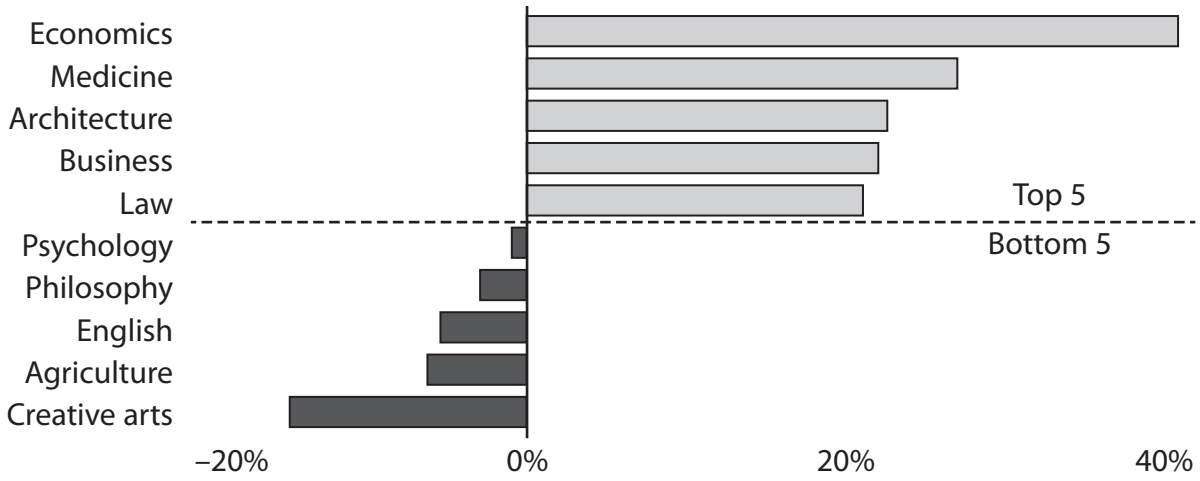
Answer ALL questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

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

Question 6

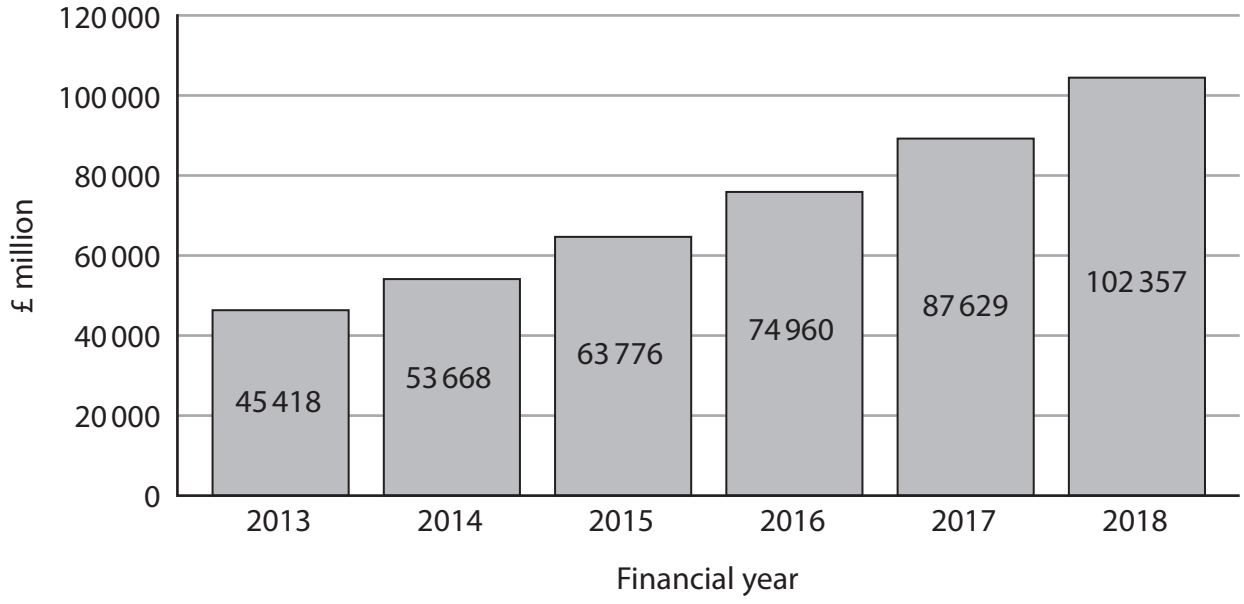
The market for higher education in the UK

Figure 1: Average graduate earnings, according to subject studied, compared to average non-graduate earnings (per cent) 2018 selected subjects.



(Source: adapted from https://www.ifs.org.uk/publications/13731
The impact of undergraduate degrees on early-career earnings, Research report, November 2018)

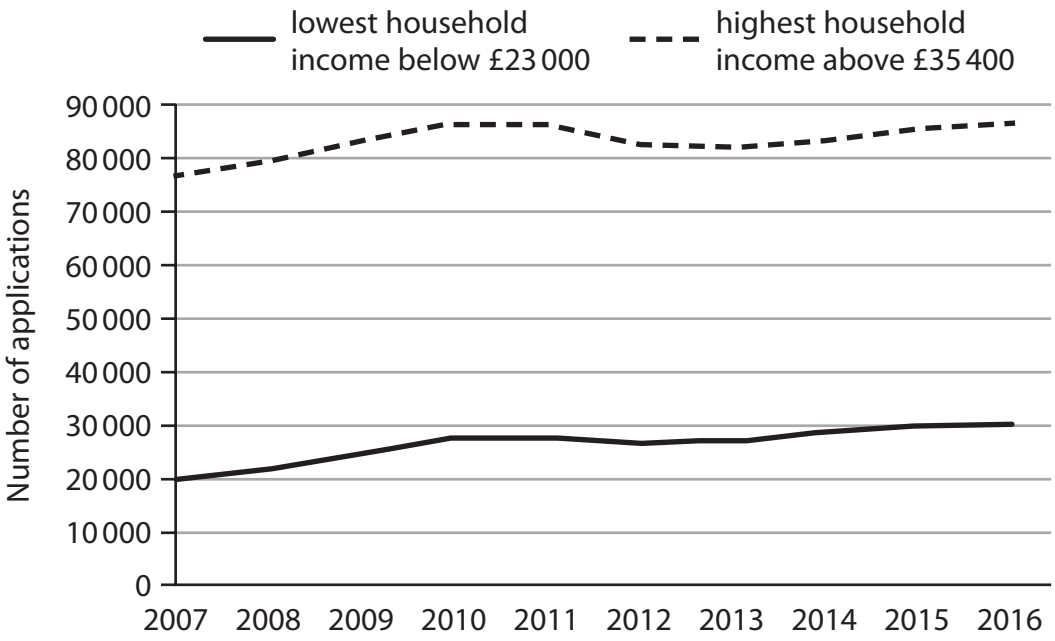
Figure 2: Student loans outstanding at the end of financial years 2013 to 2018 in England



(Source: adapted from https://www.slc.co.uk/official-statistics/student-loans-debt-and-repayment/england.aspx)

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Figure 3: Number of applications to UCAS according to median income of area



(Source: adapted from https://www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/2018-cycle-applicant-figures-january-deadline)

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Extract A

Rethinking tuition fees

The value of a degree is significant. The latest data shows that the median university graduate income was £10 000 more than the average non-graduate income in 2018. This 'graduate premium' means graduates will contribute significantly to the economy. In addition, the government will benefit greatly from additional tax revenues.

However, funding higher education continues to be a major issue. English universities charge some of the world's highest fees. Interest rates on student loans are now 6.3%. There are a large number of courses where graduates are likely to earn less than non-graduates, despite an average of £50 000 of debt.

The Department for Education estimates that 45% of the value of loans will not be repaid. Outstanding student loans in England totalled more than £100 billion in 2018. By 2023 total outstanding student loans are forecast to rise to £120 billion.

One option for revising student fees could be to charge higher fees for courses that are more expensive to teach or that have a better chance of higher earnings. That would make Science or Mathematics degrees more expensive to study than English or Philosophy.

At most universities the level of fees is likely to be the same flat rate of £9 250 per year. However, science-based courses need more expensive equipment and courses such as medicine require more teaching time and personal instruction.

Tuition fees were introduced in 1998 at £1 000 per year. They are currently £9 250. Economists estimate that the price elasticity of demand for higher education is about –0.5.

Charging £9 250 a year for an undergraduate degree makes England very expensive by international standards. Scotland has no fees for Scottish students, and fees in Wales and Northern Ireland are significantly lower. Much of Europe has low or no fees and Germany, which used to charge fees, has abolished them, replacing them with a graduate tax.

The only country with comparable fees is the United States. Top private colleges can charge more than the equivalent of £30 000 per year while state colleges can charge local students less than fees in England.

Despite this, student numbers at English universities have continued to increase from 450 000 in 1998 to over 700 000 in 2018. Students from all backgrounds are more likely to go to university than ever before.

However, applicants from low-income areas are much less likely to go to university than applicants from high-income areas. The Universities and Colleges Admissions Service (UCAS) found that in the most deprived 10% of postal areas about 20% of young people went to university in 2018, compared with 50% in the highest income areas. Research by University College London revealed that even when candidates from low-income areas had the same exam results, they were much less likely to apply to university than candidates from high-income areas.

(Source: adapted from https://www.theguardian.com/education/2018/dec/16/change-in-student-loan-accounting-could-add-10bn-to-national-debt)

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Extract B

Low-income university students twice as likely to drop out than high-income ones

The number of students from low-income areas who drop out of university before finishing their degree is at its highest in five years, indicating a considerable waste of scarce educational resources. This news comes at the same time as a drive to recruit students from poorer backgrounds, with universities spending a total of £725 million on access initiatives in the past academic year alone.

A number of top universities have started to lower their A level grade offers to students from low-income areas, in an attempt to encourage them to apply. However, there is a danger with 'enticing' disadvantaged students through lower grade offers, if universities are not going to provide ongoing support for them once they begin their courses.

The latest figures show that 9% of disadvantaged undergraduates do not continue in higher education beyond their first year. In comparison, the average drop-out rate among students from the high-income backgrounds was less than 5%. The gap continues to widen.

A report, published by the Office for Fair Access, concluded that: 'The significance of this for students is huge. Higher education can be a transformational experience that opens doors to rewarding careers and social mobility, but this is only the case if students achieve successful outcomes.'

(Source: adapted from https://www.telegraph.co.uk/news/2017/06/28/number-poor-students-dropping-university-highest-level-five/)

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6 (a) Explain why 'the price elasticity of demand for higher education is about –0.5' may be of relevance to English universities.

Refer to Extract A in your answer.

(5)

According to Extract B, the drop-out rate of students from low-income households is much higher than that of high-income households.

(b) Assess the likely impact of these drop-out rates on the allocation of resources within an economy.

(10)

(c) With reference to Extract A, explain **one** likely private benefit to students and **one** likely external benefit of higher education.

(6)

(d) With reference to Figure 2, calculate the percentage increase in outstanding student loans from 2013 to 2018. You are advised to show your working.

(4)

(e) With reference to Figure 1 and Extract A, discuss the benefits of allowing universities to charge higher tuition fees for some degree courses.

(15)

EITHER

(f) Evaluate the possible advantages of a free market approach to providing services such as education.

(20)

OR

(g) Evaluate whether government intervention is able to correct market failure in education.

(20)

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(20)

OR

(g) Evaluate whether government intervention is able to correct market failure in education.

(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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