Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel International Advanced Level

Centre Number | Candidate Number

Monday 8 October 2018

Afternoon (Time: 1 hour 30 minutes) | Paper Reference **WEC01/01**

Economics

International Advanced Subsidiary
Unit 1: Markets in Action

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.
- Answer **all** the questions in Section A and **one** question from Section B.
- 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.*
- You should take care in your responses with your spelling, punctuation and grammar, as well as the clarity of expression.
- 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 in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 (a) In a free market economy, one function of the price mechanism is to

(1)

A create an incentive to decrease production as the price of a good decreases

B ration resources by allowing the price of a good to increase when demand decreases

C signal to producers to increase output when the price of a good decreases

D encourage government intervention to correct market failure

Answer ☐

(b) Explanation

(3)

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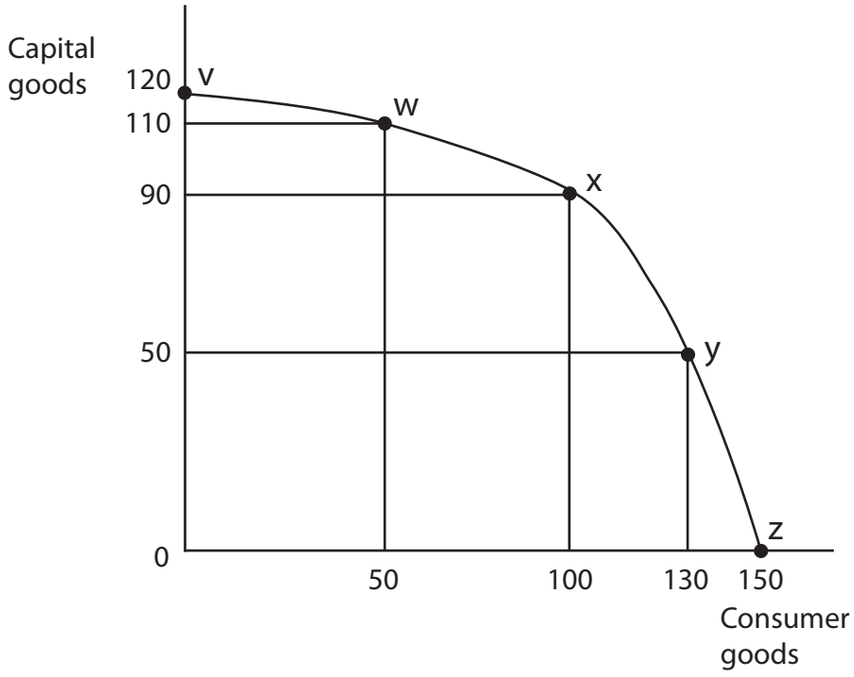
QUESTION 2 BEGINS ON THE NEXT PAGE.

2 The diagram shows the production possibilities for an economy.



(a) It can be deduced from the production possibility frontier that

(1)

A point x will result in more economic growth than point w

B point z will result in more economic growth than point v

C the movement from x to w has an opportunity cost of 50 consumer goods

D the movement from x to y has an opportunity cost of 30 consumer goods

Answer ☐

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(b) Explanation

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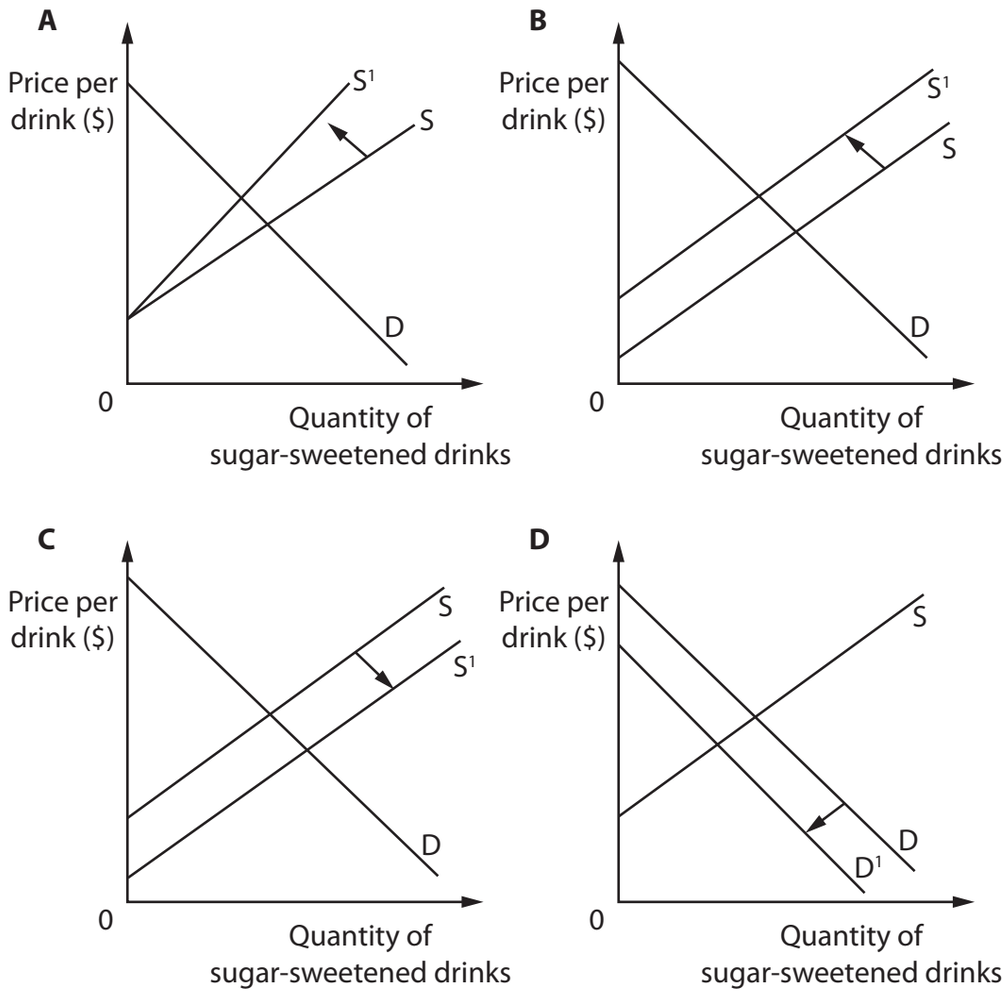
3 The city of Berkeley in the USA has introduced an indirect tax on sugar-sweetened drinks. A tax of 10% is levied on each drink.

(a) Which one of the following diagrams shows the impact of this indirect tax on the market for sugar-sweetened drinks?

(1)



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(b) Explanation

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4 (a) Which one of the following is a likely impact of an increase in the division of labour in a manufacturing business?

(1)

A Output per worker will decrease

B The level of boredom of workers will decrease

C The time taken to train each worker will decrease

D A decrease in the amount of machinery used by the business

Answer

(b) Explanation

(3)

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5 (a) The UK gas and electricity supplier SSE increased its prices by 6.9% in March 2017. Subsequently 300 000 SSE customers switched to other gas and electricity suppliers who had not increased their prices.

This switching by customers may be best explained by

(1)

A habitual behaviour

B inertia

C irrational behaviour

D rational behaviour

Answer ☐

(b) Explanation

(3)

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6 (a) Which one of the following pairs of products is most likely to have a negative cross elasticity of demand between them?

(1)

A Desktop computers and tablet computers

B Electric ovens and gas ovens

C Sports cars and umbrellas

D Cricket bats and cricket balls

Answer

(b) Explanation

(3)

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7 (a) The South African Government has increased the maximum price which can be charged for petrol from R13.30 to R13.79 per litre. The maximum price for petrol is still below the equilibrium price following this increase.

The increase in the maximum price will lead to

(1)

A an increase in excess demand

B a decrease in excess demand

C an increase in excess supply

D a decrease in excess supply

Answer

(b) Explanation

(3)

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8 (a) The Kenyan Government increased the indirect tax on cigarettes from Sh0.45 to Sh2.50. This led to an increase in the smuggling of cigarettes from abroad and a decrease in tax revenue by Sh1 billion per month.

The increase in tax has

(1)

A created a free-rider problem

B led to a fall in the price of cigarettes

C resulted in government failure

D caused market failure

Answer ☐

(b) Explanation

(3)

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TOTAL FOR SECTION A = 32 MARKS

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QUESTION 9 BEGINS ON THE NEXT PAGE.

SECTION B

Answer EITHER Question 9 OR Question 10.

You should spend 55 minutes on this section.

If you answer Question 9 put a cross in the box ☒ .

Question 10 starts on page 28.

9 Fruit and vegetable markets

Figure 1 Estimated price elasticity of demand and income elasticity of demand for fruit and vegetables in the USA

Price elasticity of demand	-0.79
Income elasticity of demand	+1.60

(Source: https://www.ers.usda.gov/webdocs/publications/45003/30438_err139.pdf?v=41148)

Extract 1 Vegetable prices increase

Fresh vegetables sold in the UK during the winter are mostly supplied from Murcia and Valencia in southern Spain. In January 2017, flooding, frost and snow in these regions reduced supplies of aubergine, courgette, lettuce, pepper and celery to UK supermarkets. As well as having problems growing the vegetables, lorries transporting them to the UK struggled to get through the snow.

Spanish Government figures show the price of a kilo of aubergines increased by 132% in January 2017. Courgette prices increased by 60%.

At the same time more people were adopting healthier lifestyles and this led to an increase in the demand for vegetables.

(Source: adapted from 'Losing the plot: courgette crisis spreads to other vegetables' Zoe Wood and Sam Jones, 20 January 2017, https://www.theguardian.com/business/2017/jan/20/losing-the-plot-courgette-crisis-spreads-to-other-vegetables)

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Extract 2 Environmental damage from vegetable production

A US study claimed that eating a healthier diet with more vegetables could be more harmful to the environment than consuming meat. The study examined how growing, processing and transporting food and household storage of food have had negative environmental impacts. For example, lettuce accounted for three times more greenhouse gas emissions than bacon. Growing lettuce uses a considerable amount of water and energy.

The study indicated that maintaining calorie intake but completely shifting to healthy foods increased energy use by 43%, water use by 16% and emissions by 11%. However, meat production still contributed 51% of total emissions.

(Source: adapted from 'Lettuce is 'three times worse than bacon' for emissions and vegetarian diets could be bad for environment' Adam Withnall, 15 December 2015, www.independent.co.uk/news/science/vegetarian-diet-bad-for-environment-meat-study-lettuce-three-times-worse-emissions-bacon-a6773671.html)

Extract 3 Government intervention in the food market

The Australian Government commissioned a study to investigate the impact of taxes and subsidies in the market for food. This study found that taxes and subsidies would be more effective than taxes alone. To combat rising rates of obesity, heart disease, diabetes and cancer, many countries have introduced taxes on unhealthy foods. France, Mexico and Norway currently tax sugary drinks. In Hungary, foods high in sugar or salt are taxed. However, these taxes have only had a small effect. For example, in Mexico, daily soft drink consumption fell by only 12 millilitres per person.

The study found that both taxing junk food and subsidising fruit and vegetables would add 500 000 extra years of healthy life to Australia's population of 23 million. It should also save more than AUD$3 billion in healthcare costs over the remaining lifetimes of all Australians alive today.

In Australia it is proposed to tax all foods that are high in sugar, salt or saturated fat and to subsidise fruit and vegetables. This would prevent overall household food bills increasing.

Other strategies for reducing junk food consumption include restricting marketing aimed at children; labelling unhealthy foods; and encouraging food manufacturers to use less sugar, salt and saturated fat.

(Source: adapted from 'Junk food tax and veg subsidies could add 500,000 years of life', Alice Klein, 14 February 2017, https://www.newscientist.com/article/2121216-junk-food-tax-and-veg-subsidies-could-add-500000-years-of-life/)

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(a) It is estimated that the price of fruit and vegetables will increase by 8% during 2018 in the USA.

With reference to Figure 1, explain the likely impact of this 8% increase in the price of fruit and vegetables on the quantity demanded.

(4)

(b) With reference to Extract 1, explain why 'the price of a kilo of aubergines increased by 132% in January 2017' (Extract 1, lines 7-8). Illustrate your answer with a supply and demand diagram.

(6)

(c) With reference to Extract 1, discuss the likely impact of the increase in the price of vegetables on food manufacturers who use vegetables in the production of processed foods.

(10)

(d) With reference to Extract 2, evaluate the impact of some farmers switching from meat production to vegetable production. Refer to external costs in your answer.

(14)

(e) With reference to Extract 3, evaluate the impact of the Australian Government introducing taxes on junk food.

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QUESTION 10 BEGINS ON THE NEXT PAGE.

If you answer Question 10 put a cross in the box ☒ .

10 Labour markets

Extract 1 Retraining programmes should be introduced to reduce occupational immobility

There is a fear that workers could lose their jobs to automation and robots. Automation is where there is minimal human input as machines increasingly take over production.

According to one expert, automation is going to leave millions of Americans unemployed within the next decade. One of the most affected sectors is the customer service industry. From information provided by large banks, telecommunications companies and retailers, it has been calculated that 40-50% of tasks performed in customer care by workers fall into a category that is at high risk of being replaced by robots. Routine processes like updating payment cards, addresses and passwords could be done by robots. According to research carried out by Oxford University, 47% of US jobs could be lost as a result of automation.

People working in the customer service industry could be replaced and may find it difficult to move to other industries. Many workers are unaware that they are at risk of being replaced by robots. For example, taxi drivers could lose their jobs to driverless cars. Many of the workers most likely to be affected will be on lower incomes and they will not have the savings available to invest in retraining.

The US Government should fund retraining programmes that provide an opportunity for at-risk workers to learn new skills. The US Government should also advertise retraining programmes to make sure workers are aware of them.

(Source: adapted from 'We need a New Deal to address the economic risks of automation', Mar 31 2017, Rob LoCascio, https://techcrunch.com/2017/03/31/we-need-a-new-deal-to-address-the-economic-risks-of-automation/)

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Extract 2 Universities in the Philippines to receive $298 million subsidy

The Philippines Government is concerned about individuals under-investing in university education. Many prospective Filipino students only consider the private costs and private benefits of university education. Even so, they are unaware of all of the likely private benefits of a university degree and ignore benefits to third parties.

The Government controls state universities and colleges (SUCs) and, until 2017, charged tuition fees to students. The Government will now provide a $298 million subsidy to universities so that students will not need to be charged these tuition fees. They will also offer financial assistance to students in private universities.

To receive the subsidy the Filipino students must study for a degree in an SUC. The subsidy will not be dependent on income but those who can afford to pay for their education will be encouraged to "opt out" of the subsidy.

Some private universities are concerned that students will opt for SUCs to receive free education. There is a fear that poorer students will continue to be left behind. Poorer students generally have less opportunity to meet entry requirements for university and there is no support to cover living expenses whilst studying.

(Source: adapted from 'Free Public Universities in the Philippines', Apr 18 2017, Alyssa Walker, https://www.masterstudies.com/news/Free-Public-Universities-in-the-Philippines-1573/)

(a) With reference to the titles of Extract 1 and Extract 2, explain the difference between normative statements and positive statements.

(4)

(b) With reference to Extract 1, explain how automation and robots might affect the labour market for workers in the customer service industry. Use a labour market diagram in your answer.

(6)

(c) With reference to Extract 1, discuss the impact of retraining programmes on the immobility of labour in the USA.

(10)

(d) With reference to Extract 2, evaluate the reasons why prospective Filipino students are under-investing in education. Refer to market failure in your answer.

(14)

(e) With reference to Extract 2, evaluate the impact of the $298 million subsidy to state universities and colleges. Include an appropriate diagram in your answer.

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(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS

TOTAL FOR PAPER = 80 MARKS

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