Write your name here

Surname	Other names

Pearson Edexcel International Advanced Level

Centre Number | Candidate Number

Economics

International Advanced Subsidiary/Advanced Level
Unit 1: Markets in action

Sample assessment material for first teaching September 2018

Time: 1 hour 45 minutes

Paper Reference **WEC11/01**

You must have:
Source booklet (enclosed), calculator.

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** questions in Sections A, B and C.
- Answer **ONE** question in Section D.
- 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.*
- **Candidates may use any calculator permitted by Pearson regulations.**

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

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SECTION A

Answer ALL questions in this section.

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 ☒.

1 **Statement 1:** Countries should impose indirect taxes of 20% on sugary drinks.

Statement 2: 39% of adults worldwide were overweight in 2014. 11% of men and 15% of women were classified as obese.

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

☐ **A** Both statements are normative.

☐ **B** Statement 1 is normative and statement 2 is positive.

☐ **C** Both statements are positive.

☐ **D** Statement 1 is positive and statement 2 is normative.

(Total for Question 1 = 1 mark)

2 Which **one** of the following is an example of market failure?

☐ **A** The price of a commodity falling in response to falling demand

☐ **B** A tradeable pollution permit scheme aimed at reducing external costs

☐ **C** A market bubble caused by speculators, which leads to house prices rising

☐ **D** Excessive administrative costs resulting from the introduction of regulation

(Total for Question 2 = 1 mark)

3 In the UK, gas and electricity customers could save over £300 by moving to a different supplier. However, 70% of customers have never switched gas and electricity suppliers.

Which **one** of the following explains this behaviour?

☐ **A** Customers being good at computation

☐ **B** Customers maximising utility

☐ **C** Customers not feeling valued by current suppliers

☐ **D** Customers exhibiting habitual behaviour

(Total for Question 3 = 1 mark)

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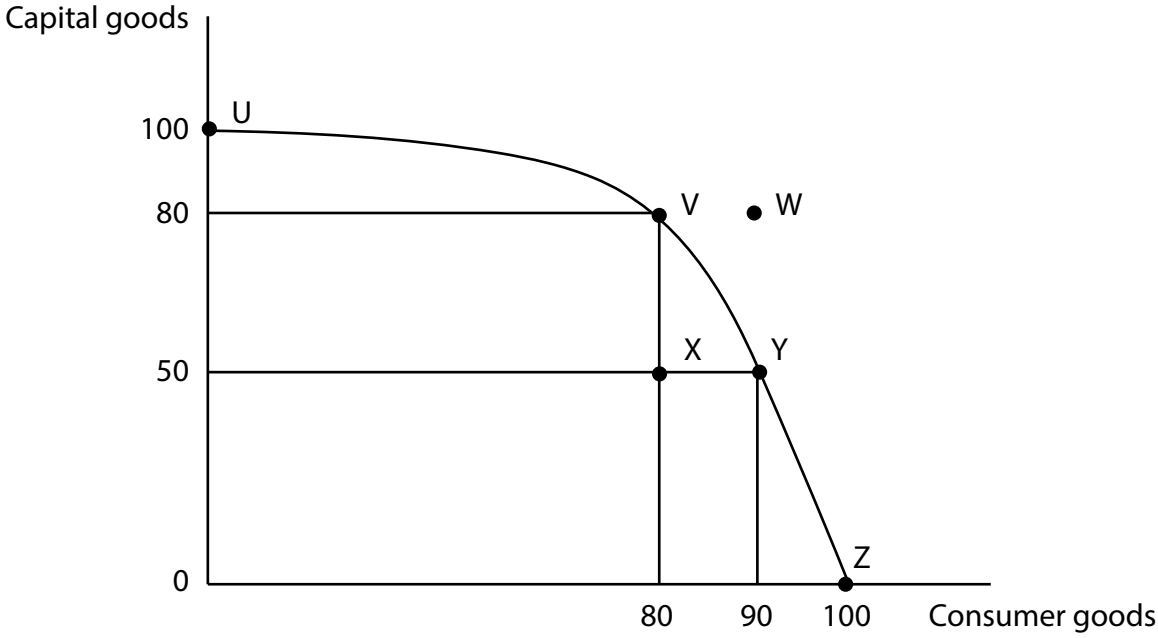
4 The diagram shows an economy's production possibility frontier.



Which **one** of the following movements has an opportunity costs of 30 capital goods?

☒ **A** U to V

☒ **B** V to Y

☒ **C** W to Z

☒ **D** Y to Z

(Total for Question 4 = 1 mark)

5 The price of a litre of rapeseed oil increased by 7% in August 2016. Over the same period the quantity demanded of rapeseed oil decreased by 5% and the quantity demanded of sunflower oil increased by 3%.

Ceteris paribus, the cross-elasticity of demand for sunflower oil following a price change in rapeseed oil is equal to:

☒ **A** 0.43

☒ **B** 0.71

☒ **C** 1.40

☒ **D** 2.33

(Total for Question 5 = 1 mark)

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6 The table below shows the estimated price elasticity of demand for various food items in the USA.

Food item	**Estimates of price elasticity of demand**
Cheese	-0.70
Ice cream	-0.23
Milk	-0.10
Other dairy products	-1.04

(Source: http://www.ers.usda.gov/media/875267/err139.pdf)

Which one of the following can be deduced from the table?

☒ **A** Cheese is an inferior good.

☒ **B** Ice cream has perfectly price inelastic demand.

☒ **C** An increase in the price of milk will cause a less than proportionate decrease in quantity demanded.

☒ **D** A decrease in the price of other dairy products will cause a more than proportional decrease in quantity demanded.

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

Answer ALL questions in this section in the space provided.

7 To support the income of rice farmers, the Indian government introduced a guaranteed minimum price in 2016.

Draw a diagram to illustrate the impact of the introduction of the minimum price on the market for rice.

(Total for Question 7 = 4 marks)

8 In the European Union, if a bank fails and has to be closed down, an individual's deposits are guaranteed up to €100 000 by the individual's government.

With reference to the market for banking, explain what is meant by the term 'moral hazard'.

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(Total for Question 8 = 4 marks)

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9 In 2016 the Regional Public Goods Initiative provided grants of $9.45 million to fund public goods across Latin America and the Caribbean.

Explain why governments have to fund the provision of public goods.

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(Total for Question 9 = 4 marks)

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10 The table below shows the gross weekly earnings for Canadian workers and the quantity of international passenger flights made by Canadians in 2014 and 2015.

	2014	**2015**
Gross weekly earnings (income)	$935.33	$952.11
Quantity of international passenger flights	51 899 308	53 894 326

(Sources: http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/labr79-eng.htm and http://www.statcan.gc.ca/pub/51-203-x/2015000/t001-eng.htm)

Using the data in the table, calculate the income elasticity of demand for passenger flights in Canada. Show your workings.

(Total for Question 10 = 4 marks)

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11 Between 2010 and 2014, the price of US almonds increased from \$1.79 to \$3.19. The quantity of almonds supplied increased from 1 461 664 000 lbs to 1 950 018 000 lbs.

Explain the likely price elasticity of supply between 2010 and 2014.
Illustrate your answer with a diagram.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'renewable resource'.

(2)

(b) Explain what is meant by the term 'cross elasticity of demand'. Refer to the likely relationship between the price of coal and the demand for renewable energy resources in your answer.

(4)

(c) With reference to Figure 1 and Extract A, analyse **one** reason why in October 2016 the price of coal 'reached its highest level since the start of the year' (Extract A, lines 5-6).

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Extract B, examine the likely impact of the introduction of an indirect tax on coal on the market for electricity generation.

(8)

(e) With reference to Extract B, discuss the external costs of generating electricity using coal.

Illustrate your answer with an appropriate diagram.

(14)

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12 (a) Define the term 'renewable resource'.

(2)

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(b) Explain what is meant by the term 'cross elasticity of demand'. Refer to the likely relationship between the price of coal and the demand for renewable energy resources in your answer.

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(c) With reference to Figure 1 and Extract A, analyse **one** reason why in October 2016 the price of coal 'reached its highest level since the start of the year' (Extract A, lines 5-6).

Illustrate your answer with a supply and demand diagram.

(6)

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(d) With reference to Extract B, examine the likely impact of the introduction of an indirect tax on coal on the market for electricity generation.

(8)

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(e) With reference to Extract B, discuss the external costs of generating electricity using coal.

Illustrate your answer with an appropriate diagram.

(14)

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 'UNICEF identified that in Nigeria 30% of children aged 6-11 do not go to school and that many children lack a basic education.'

Evaluate the private benefits and external benefits of education.

(Total for Question 13 = 20 marks)

OR

14 'The American plane manufacturer Boeing, believes that the European Union is subsidising Europe's Airbus by up to $22 billion. Boeing argues that this is unfair.'

Evaluate the economic effects of subsidies paid to businesses such as Airbus.

(Total for Question 14 = 20 marks)

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 13** ☐ **Question 14** ☐

Write your answer here:

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TOTAL FOR SECTION C = 20 MARKS

TOTAL FOR PAPER = 80 MARKS

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International Advanced Level

Economics

International Advanced Subsidiary/Advanced Level
Unit 1: Markets in action

Sample assessment material for first teaching September 2018

Source booklet

Paper Reference
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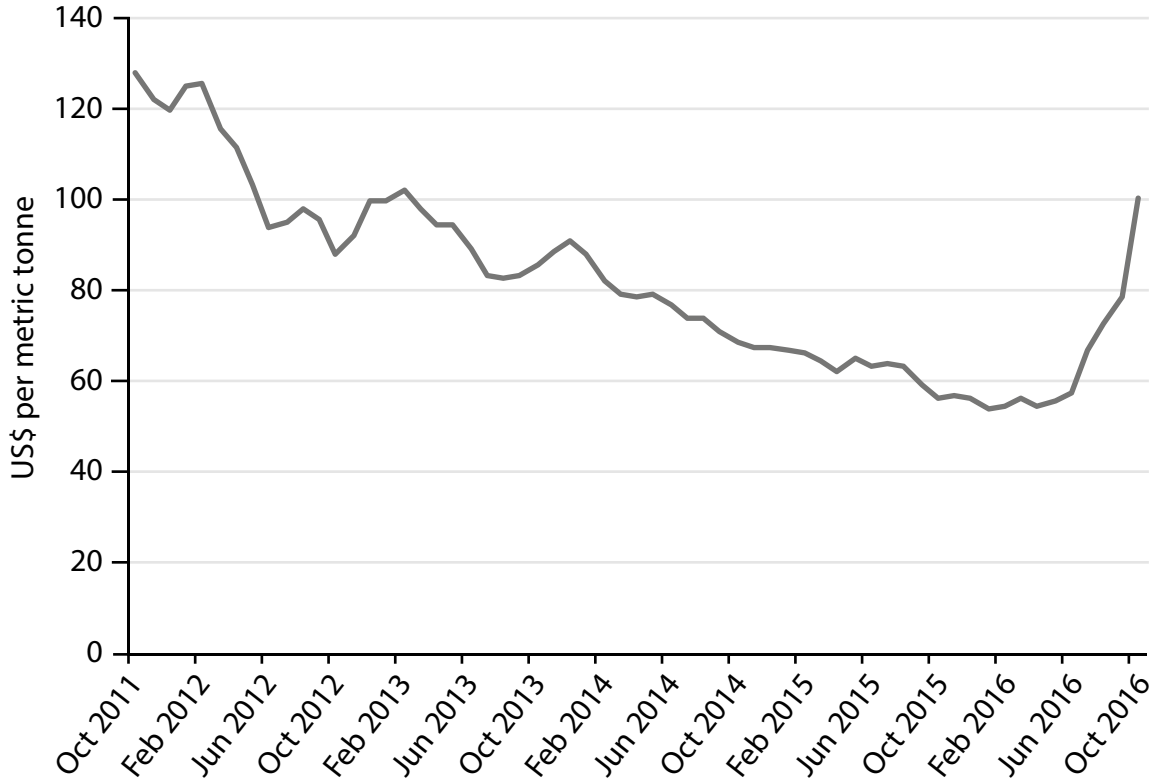
Sources for use with Section C.

The market for coal

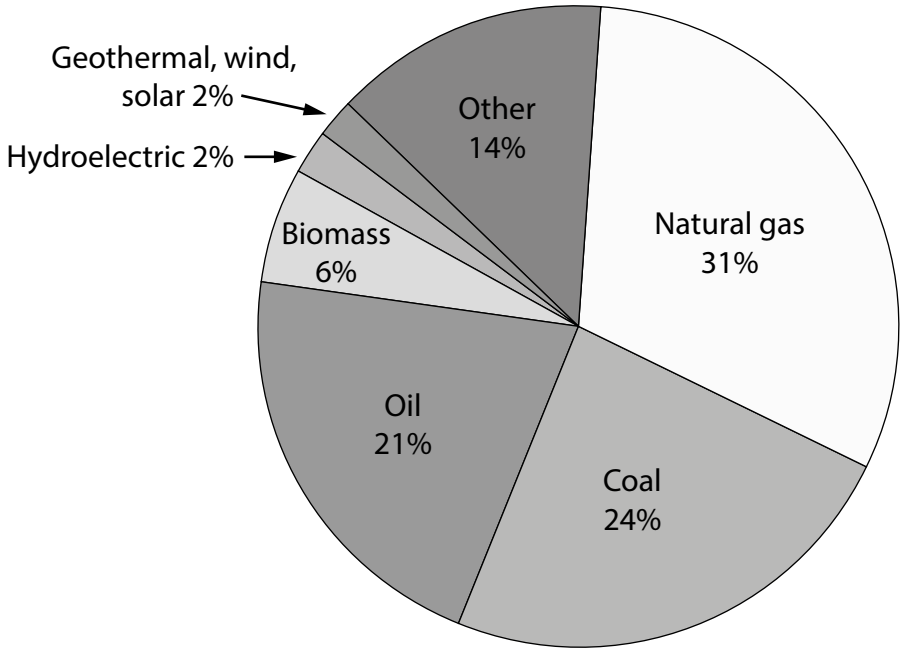
Figure 1 – Price of thermal coal, $US per metric tonne, October 2011 to October 2016



Extract A - The price of thermal coal rises

Thermal coal is a type of coal used in generating electricity. In April 2016, China introduced regulations to reduce the production of coal because there was oversupply in the market. The regulations limited the number of days that miners could work. The costs of transporting coal also rose. In October 2016, the price of thermal coal reached its highest level since the start of the year. 5

Figure 2 - Energy generation in the USA by energy source, 2015



Extract B – Coal power generation in the USA

Coal used in generating electricity is the largest source of carbon dioxide (CO_2) emissions in the USA. In 2011, coal power stations emitted a total of 1.7 billion tonnes of CO_2. CO_2 emissions are a major cause of global warming, which could melt the polar ice caps and result in more extreme weather events. This would mean more flooding and damage to property.

Coal power stations are a significant source of sulphur dioxide (SO_2) and nitrogen oxides (NOx) pollution in the USA. These affect people's health, as they can damage lungs. They also cause acid rain, which damages crops, forests and soils, and affects lakes and streams.

Coal power stations are responsible for more than 50% of human-caused emissions of mercury, a toxic heavy metal that causes brain damage and heart problems. Mercury leaking into lakes kills fish and other wildlife.

Coal emissions can be significantly reduced with the use of technology. However, this is expensive and so few coal plants use it.

In November 2016, voters in Washington State, USA, voted in a referendum on whether to introduce an indirect tax on coal. The aim of such a tax would be to reduce emissions that contribute to climate change. The revenue raised could fund developments of cleaner renewable energy. At the same time, it would give energy producers the incentive to reduce the use of coal. However, some argue it could harm the poor if it drives up energy prices. Energy companies are concerned about the added costs which could lead to a reduction in production and employment.

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Acknowledgements

Figure 1 based on data taken from http://www.indexmundi.com/Commodities/?commodity=coal-australian&months=60;Extract A adapted from 'Physical coal prices surge to highest since start of 2014', by Henning Gloystein and Nina Chestney, Oct 4 2016, http://www.reuters.com/article/us-coal-markets-idUSKCN1240C9; Figure 2 based on data taken from: http://www.eia.gov/energyexplained/index.cfm?page=us_energy_home; Extract B adapted from http://www.ucsusa.org/clean_energy/coalvswind/c02c.html#.V_6xwSS2Ukw