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Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 1: Markets in Action

Tuesday 10 January 2017 – Afternoon
Time: 1 hour 30 minutes

Paper Reference
WEC01/01

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.
- 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) Which one of the following statements about private goods is true?

(1)

A There is non-rivalry in their consumption

B There is non-excludability in their consumption

C It is possible to exclude people from consuming them

D The free rider problem makes it difficult for firms to make a profit

Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 (a) One cause of government failure is

(1)

A asymmetric information in the pension market

B the existence of free riders leading to the under provision of public goods

C overproduction of goods with external costs

D excessive administrative costs in enforcing environmental policies

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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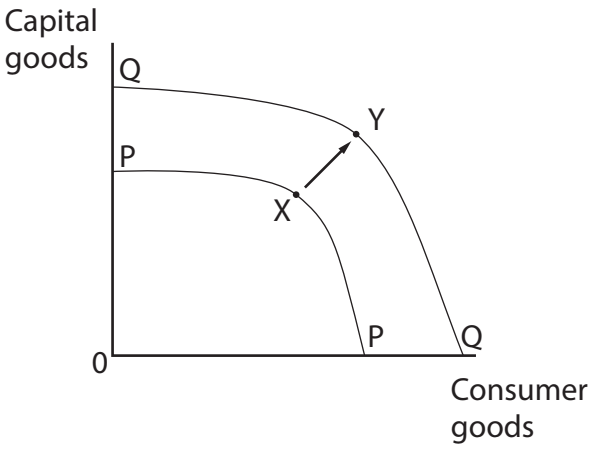
3 The diagrams below show movements from position X to Y on production possibility frontiers for Japan's economy. It currently operates efficiently at full employment.

Japan's population is predicted to fall by 25.3% between 2010 and 2050.

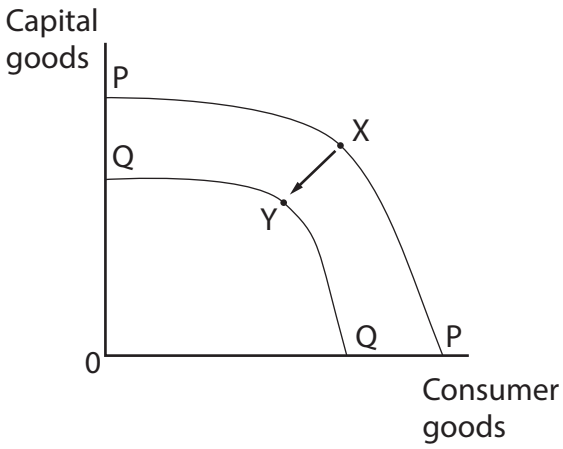
(a) In which of the diagrams does the movement from X to Y illustrate this reduction in population while the economy is still operating at full employment?

(1)

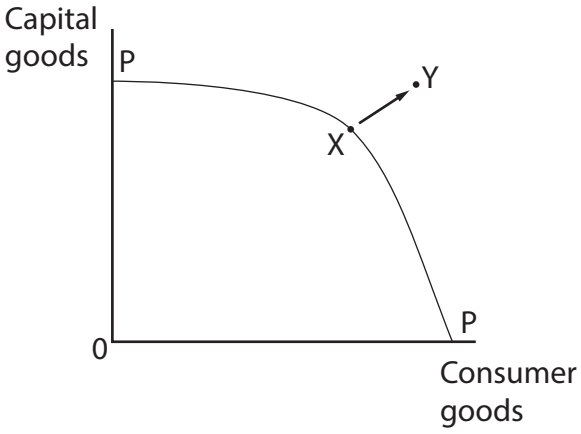
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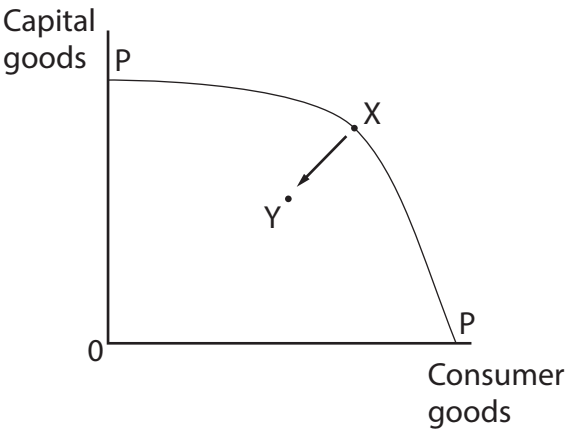
B



C



D



Answer

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(b) Explanation

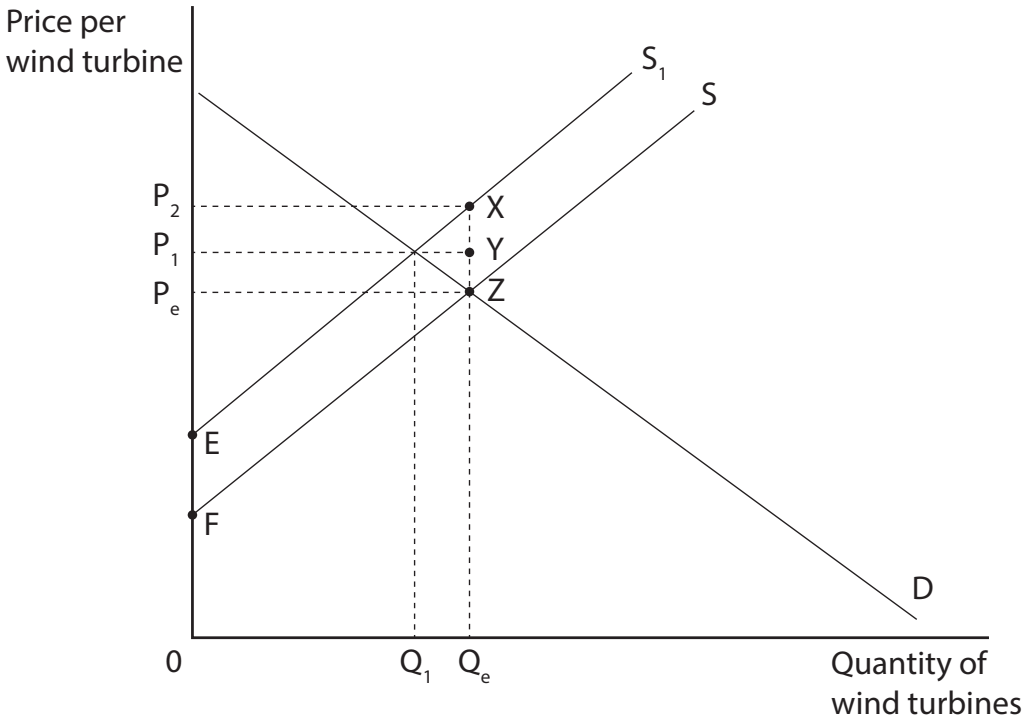
(3)

(Total for Question 3 = 4 marks)

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4 The diagram shows the effect of the removal of the UK Government subsidy for wind turbines used for electricity generation.



(a) From this diagram it can be deduced that, after the removal of the subsidy,

(1)

A the UK Government will reduce its spending by P_eP_2XZ

B producer surplus will increase to P_eZF

C the price will rise to P_2

D the quantity will rise to Q_e

Answer ☐

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(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 The Government of Uganda is providing training schemes to 45 000 people of working age to reduce the country's unemployment rate.

(a) The planned effect of the training schemes is to reduce

(1)

A the demand for labour

B occupational immobility of labour

C the mobility of labour

D the elasticity of supply for labour

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 (a) Which one of the following is most likely to result in an increase in producer surplus in the market for cows' milk?

(1)

A Consumers switching from cows' milk to soya milk

B A health scare highlighting problems of consuming cows' milk

C An advert highlighting the benefits of cows' milk

D An increase in indirect taxes charged on cows' milk

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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7 Myanmar's Government intends to introduce a minimum wage for clothing workers of 450 kyat per hour. The minimum wage rate is set above the average wage in the clothing industry. (You may wish to use a diagram in your answer).

(a) The introduction of the minimum wage will be likely to

(1)

A decrease the supply of labour in the clothing industry

B increase the demand for labour in the clothing industry

C cause employment in the clothing industry to fall

D cause the price of clothing to fall

Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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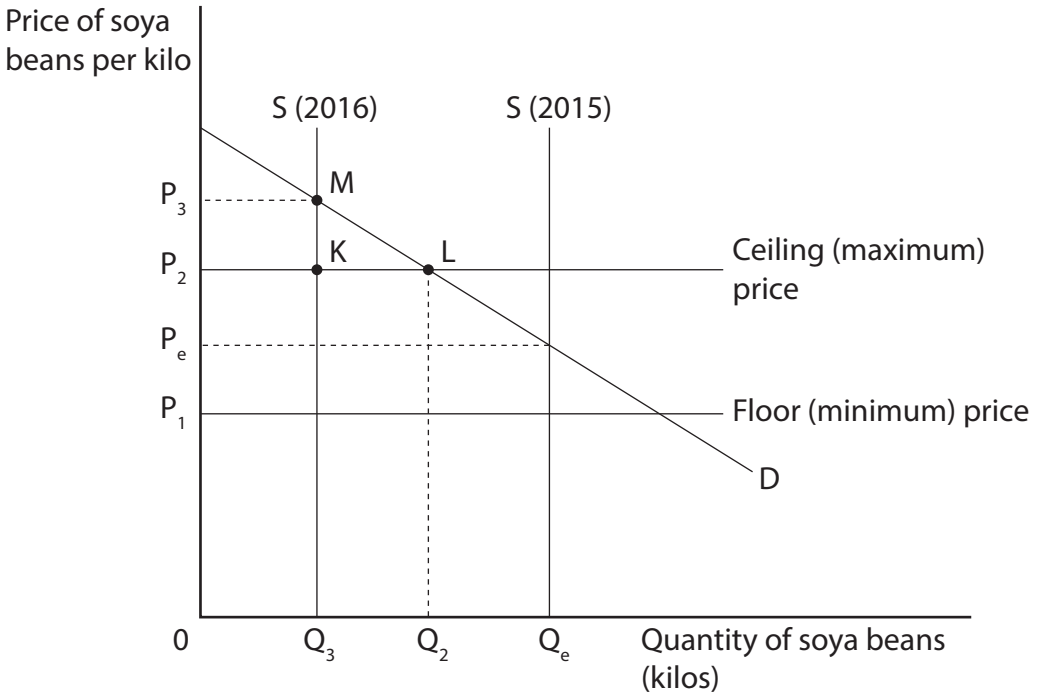
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QUESTION 8 BEGINS ON THE NEXT PAGE.

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8 The diagram shows the market for soya beans where the government will intervene to maintain the price between P_1 and P_2 using buffer stocks. The supply curves show supply in the years 2015 and 2016.



(a) The 2016 harvest led to

(1)

A an excess supply of soya beans

B the government buying soya beans and adding them to its stocks

C an increase in demand for soya beans compared with 2015

D the government selling from its stocks of soya beans

Answer ☐

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(b) Explanation

(3)

Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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SECTION B

Answer EITHER Question 9 OR Question 10.

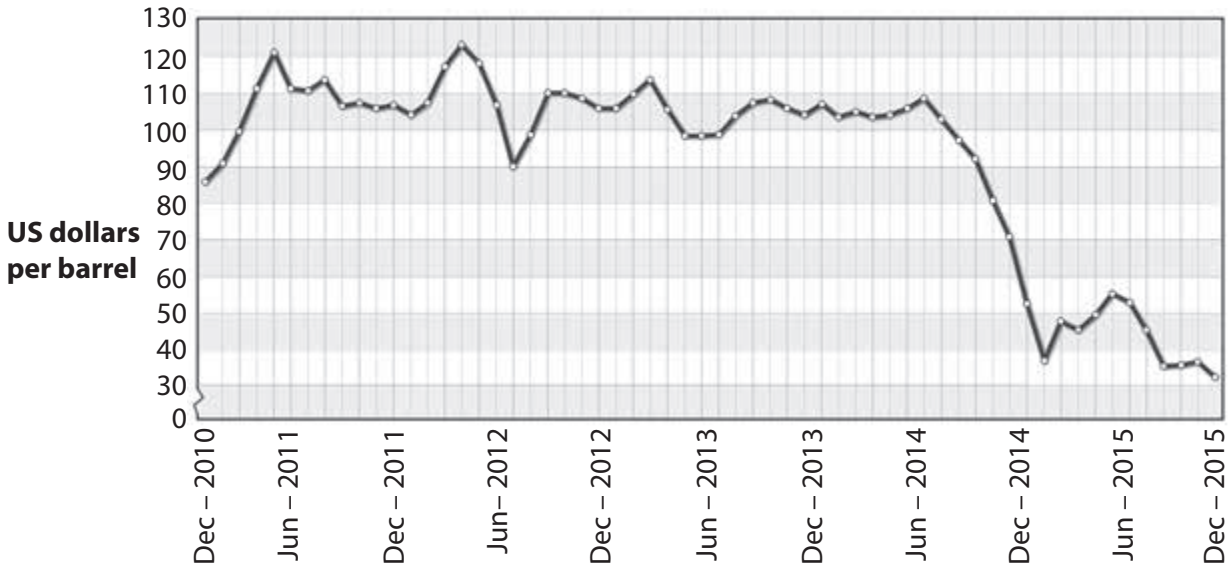
You should spend 55 minutes on this section.

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

Question 10 starts on page 28.

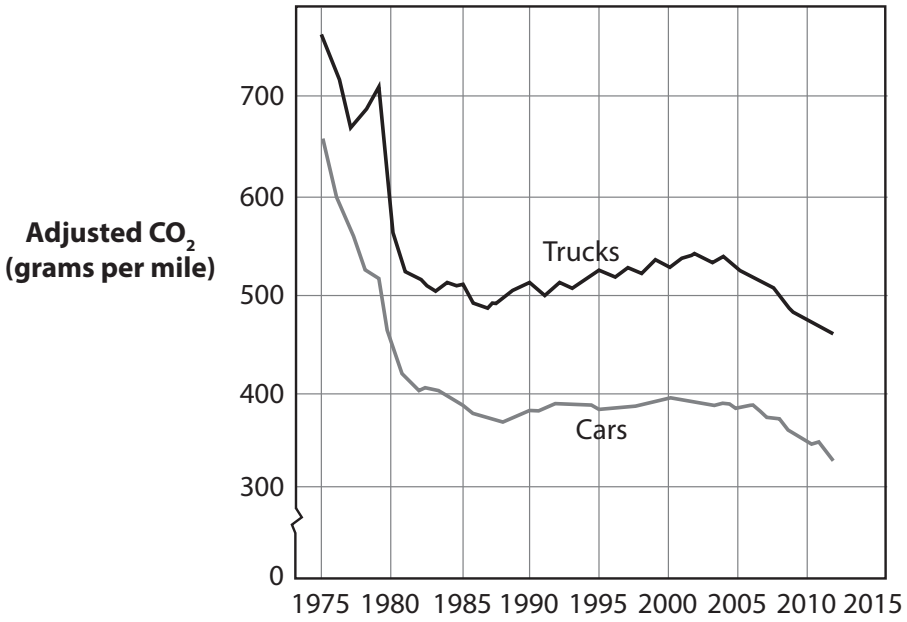
9 The oil market

Figure 1 Crude oil price (US dollars per barrel), December 2010 to December 2015



(Source: http://www.indexmundi.com/commodities/?commodity=crude-oil-brent&months=60)

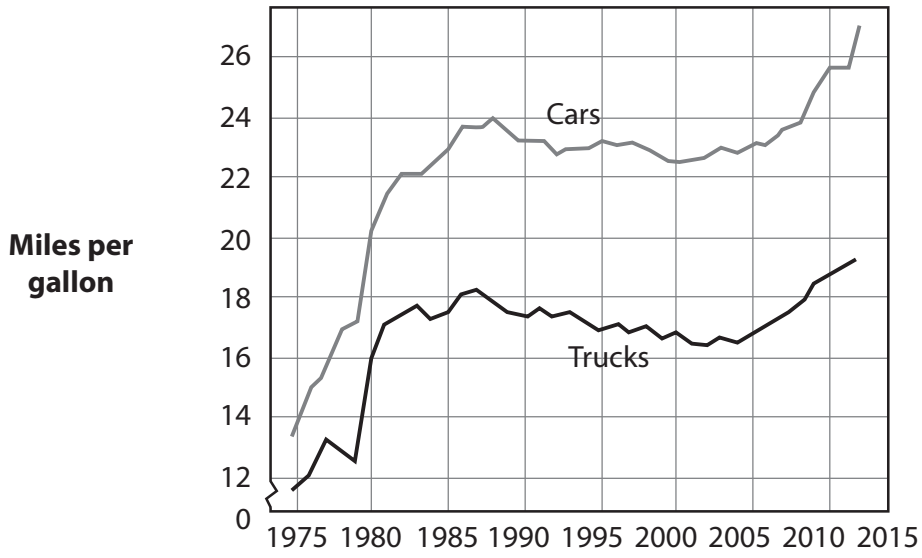
Figure 2 Average CO_2 emissions per new truck (lorry) and new car registered in the USA, 1975 to 2013



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Figure 3 Fuel economy as measured by miles per gallon achieved by new trucks (lorries) and new cars registered in the USA, 1975 to 2013



(Source: http://www.washingtonpost.com/blogs/wonkblog/wp/2013/03/16/cars-in-the-u-s-are-more-fuel-efficient-than-ever-heres-why/)

Extract 1 Why did the price of oil drop so fast?

The oil price fall since June 2014 was caused by changes in supply and demand. USA oil production doubled between 2009 and 2015. Saudi Arabia, Nigeria and Algeria used to export oil to the USA but now the USA produces more than enough oil to meet its own needs. Consequently, the oil price fell.

OPEC, a group of oil producers, met in Vienna in 2014 and decided not to cut production. So by August 2015 the oil price fell 40%. Some members of OPEC wanted to lower supply to push up prices but Saudi Arabia rejected this.

Oil resources are finite and once extracted cannot be used again. Despite this oil producing nations are extracting oil in greater quantities. Investment in new solar and wind power capacity is being cut because of the high cost to the government in the form of subsidies.

The demand for petrol and diesel is falling. This has been caused by weak economic growth in much of Europe and in developing countries causing real incomes to grow slowly. At the same time new trucks and new cars are becoming more energy efficient reducing their requirement for diesel and petrol.

New cars now burn less fuel causing less air pollution. This helps to reduce the pressure on healthcare. For example, those with respiratory diseases are less likely to need treatment. However, many people in developing countries drive old cars that are less fuel efficient. Also, increased numbers of drivers may offset the gains in fuel efficiency.

(Source: adapted from 'Oil Prices: What's Behind the Drop? Simple Economics' by Clifford Krauss, August 3rd 2015, http://www.nytimes.com/interactive/2015/business/energy-environment/oil-prices.html?_r=0)

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Extract 2 Loss of jobs in the oil industry

The oil price decline between June 2014 and May 2015 resulted in 100 000 workers losing their jobs. For example, exploration and production companies BP and Chevron announced 10 000 redundancies.

The oil and gas industry employs a variety of highly skilled and experienced engineers, technicians and rig crews. Continuing widespread redundancies may persuade individuals to pursue careers in more stable industries.

The problem is that when the oil price rises there will be a shortage of workers with the right skills which will contribute to rising costs and safety concerns.

(Source: adapted from 'Almost 100,000 oil workers out of work due to oil price plunge' by Douglas Westwood, 4th May 2015, http://www.offshoreenergytoday.com/dw-almost-100-000-oil-workers-out-of-work-due-to-oil-price-plunge/)

Extract 3 Diesel and petrol tax increases in Australia

The Australian Government has decided to increase the indirect tax on diesel and petrol every six months. The increased tax will help raise AUS$1.1 billion per year and will be used for new road building and road improvements. One benefit of investing in roads is that many jobs will be created.

(Source: adapted from 'Fuel tax rises on way after Labor and Coalition agree deal on road spending' by Daniel Hurst, 23 June 2015, http://www.theguardian.com/australia-news/2015/jun/23/labor-to-back-fuel-tax-rise-on-condition-11bn-spent-on-regional-roads)

(a) With reference to Figure 1 and Extract 1, explain why the price of oil fell after June 2014. Use a supply and demand diagram in your answer.

(6)

(b) Using examples from Extract 1, explain what is meant by renewable and non-renewable resources.

(4)

(c) With reference to Extract 2, discuss the likely impact of the fall in the oil price on employment in the oil industry. Use a supply and demand diagram for the labour market in your answer.

(10)

(d) With reference to Figure 2, Figure 3 and Extract 1, examine the likely economic effects of new trucks and new cars becoming more energy-efficient. Refer to the concept of external costs in your answer.

(14)

(e) With reference to Extract 3, evaluate the likely effects of the increase in indirect tax on diesel and petrol in Australia.

(14)

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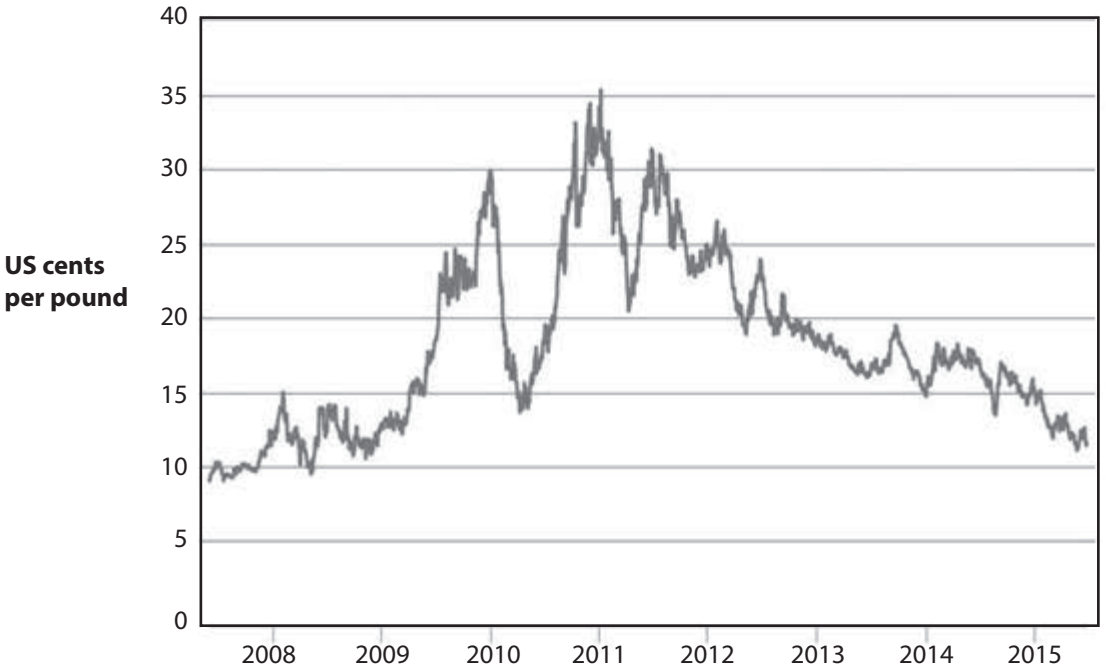
QUESTION 10 BEGINS ON THE NEXT PAGE.

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

10 The sugar market

Figure 1 Sugar price, US cents per pound, 2007 to 2015



(Source: http://cloud.highcharts.com/show/ymafyx)

Extract 1 Sugar price collapse is dramatic

The price of sugar fell to a six-year low in July 2015 after news of a bumper harvest in Brazil. Between July 2014 and July 2015 sugar prices fell by 25%.

Brazil is the world's biggest producer of sugar, accounting for 25% of the world's supply. The dry weather in June 2015 helped boost the harvest in Brazil. India, the second-largest producer, will have its biggest harvest in three years. Thailand predicted that its sugar cane output would increase by 6.1% in 2015.

Sugar output has exceeded demand for several years leading to the largest stockpile on record, reaching 80 million tons. Sugar companies have not responded to the falling price by cutting production or switching to other crops. Instead, some have tried to offset falling prices by producing more. It takes between six months and two years to grow a sugar cane crop and the average is one year.

The price of sugar has also been affected by a rapid increase in artificial sweetener production in China. In 2015, China increased production of the sweetener, sucralose. As the supply of this alternative to natural sugar rises the market price of the sweetener falls, encouraging consumers to switch from sugar to sucralose.

(Source: adapted from 'Forget gold, the sugar price collapse is far more dramatic - and here's why' by, John Ficenec 21 Jul 2015, http://www.telegraph.co.uk/finance/commodities/11753275/First-gold-now-why-is-the-Sugar-price-collapsing.html)

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Extract 2 Manufacturers' costs fall and consumers eat more sugar

Falling sugar prices have cut costs for food manufacturers such as Mondelez International, the maker of Cadbury chocolates and Oreo biscuits. While the decrease in the price of sugar was favourable for Mondelez in 2014, the benefit was offset by rising costs of cocoa, milk and packaging. Krispy Kreme, the doughnut maker, has seen costs fall for its doughnuts that are glazed in sugar and milk.

Following four years of falling prices people are eating more sugar. In Europe, people ate on average 37.1 kilograms of sugar in 2013, up from 35.1 kilograms in 2011, while in the US they consumed 32.5 kilograms, up from 31 kilograms. The global average is 23 kilograms.

(Source: adapted from 'What sugar glut means for Mondelez—and your grocery bills' March 17, 2015, http://www.chicagobusiness.com/article/20150317/NEWS05/150319812/what-sugar-glut-means-for-mondelez-and-your-grocery-bills)

Extract 3 World Health Organization (WHO) calls on countries to reduce sugar consumption

The WHO recommends that adults and children reduce their daily consumption of sugar to less than 10% of their total energy intake. According to the WHO this would reduce the risk of obesity and tooth decay.

Much of the sugar consumed is "hidden" in processed foods. For example, one tablespoon of tomato ketchup contains 4 grams of sugar. A single can of sugar-sweetened cola contains up to 40 grams of sugar.

Worldwide consumption of sugar varies, ranging from 7–8% of total energy in countries like Hungary and Norway, to 16–17% in countries like Spain and the United Kingdom. Consumption is much higher among children, ranging from about 12% in countries like Denmark, Slovenia and Sweden, to nearly 25% in Portugal.

Adults who consume less sugar have lower body weight. Increasing the amount of sugar in the diet causes weight increase. Children with the highest consumption of sugar-sweetened drinks are more likely to be obese than children who consume less.

Higher levels of sugar consumption not only affect the individual but also cause added pressure on third parties such as dental services and health services.

(Source: adapted from 'World Health Organization (WHO) calls on countries to reduce sugars intake among adults and children' 4 March 2015, http://www.who.int/mediacentre/news/releases/2015/sugar-guideline/en/)

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(a) With reference to Figure 1 and Extract 1, explain why sugar prices 'fell by 25%' between July 2014 and July 2015. Use a supply and demand diagram in your answer.

(6)

(b) With reference to Extract 1, explain whether the cross price elasticity of demand for sugar following a change in the price of sucralose is likely to be positive or negative.

(4)

(c) With reference to Extract 1, discuss whether the supply for sugar is likely to be price elastic or price inelastic.

(10)

(d) With reference to Extract 2, evaluate the likely impact of a reduction in the price of sugar on food manufacturers. Use a diagram in your answer.

(14)

(e) With reference to Extract 2 and Extract 3, discuss the impact of people consuming more sugar. Refer to external costs in your answer.

(14)

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TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS

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