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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 9 January 2018 – 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 The table shows the sources of electricity generation in China in 2015 and the percentage change in the generation of each energy source between 2014 and 2015.

Source	2015 Electricity generation (GW)	% change between 2014 and 2015
Coal, gas and oil	990.2	+7.8%
Nuclear	26.1	+29.9%
Hydro	319.4	+4.9%
Wind	129.3	+33.5%
Solar	43.2	+73.7%
Total	**1 508.2**	**+10.5%**

(Source: http://www.energypost.eu/chinas-electricity-mix-changing-fast-co2-emissions-may-peaked/)

(a) It can be deduced from this data that China generated

(1)

A most electricity from renewable resources in 2015

B most electricity from non-renewable resources in 2015

C less electricity from renewable resources in 2015 than in 2014

D less electricity from non-renewable resources in 2015 than in 2014

Answer ☐

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(b) Explanation

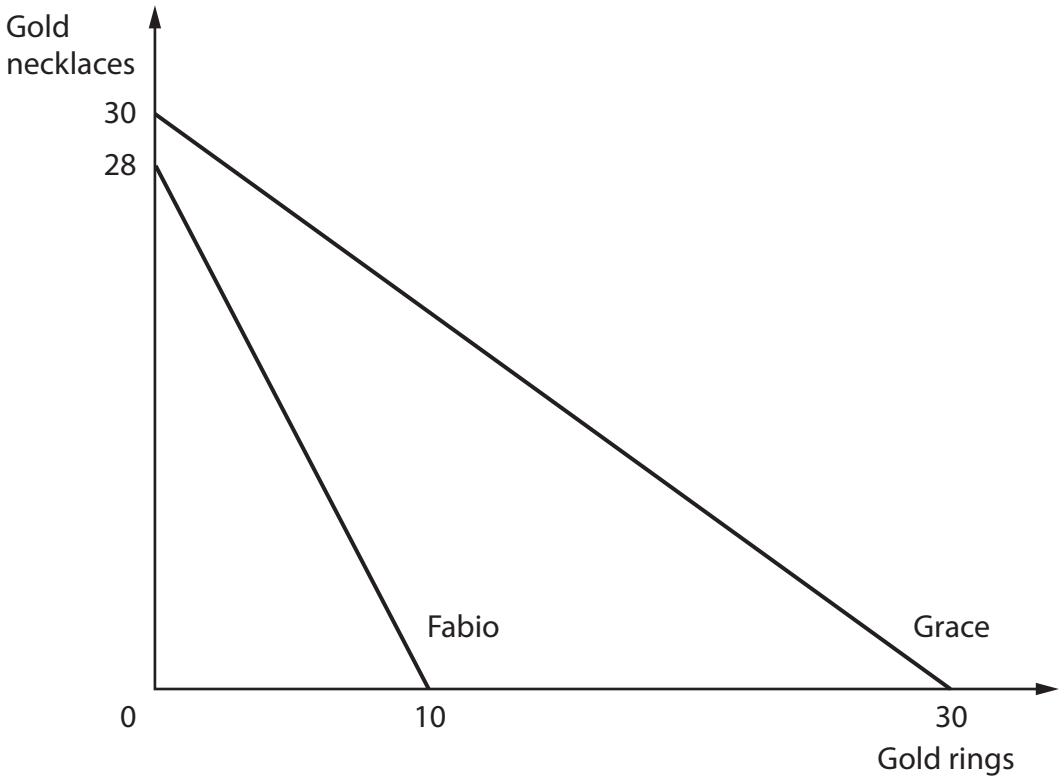
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(Total for Question 1 = 4 marks)

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2 The diagram shows the weekly production possibilities of two goldsmiths, Grace and Fabio, who produce jewellery. They each allocate half their working week to producing gold necklaces and the other half to producing gold rings.



(a) From this information it can be deduced that

(1)

A Fabio and Grace could increase their combined total weekly output through specialisation

B Fabio can produce more gold rings and gold necklaces than Grace in a week

C if Fabio specialised in producing gold rings and Grace specialised in producing gold necklaces, their combined total weekly output would increase

D if Fabio and Grace both specialised their combined total weekly output would decrease

Answer ☐

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(b) Explanation

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(Total for Question 2 = 4 marks)

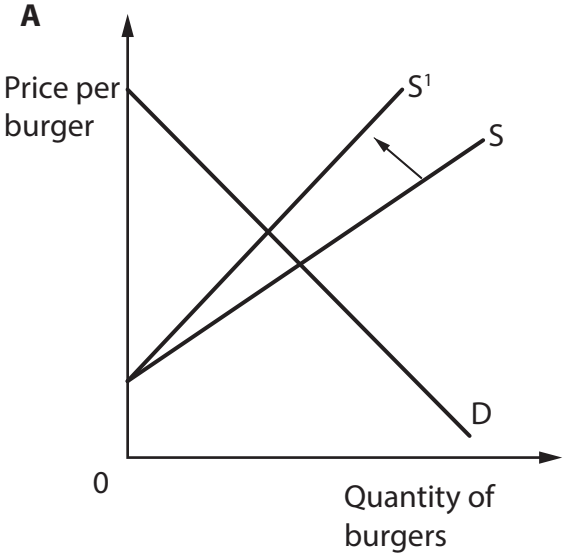
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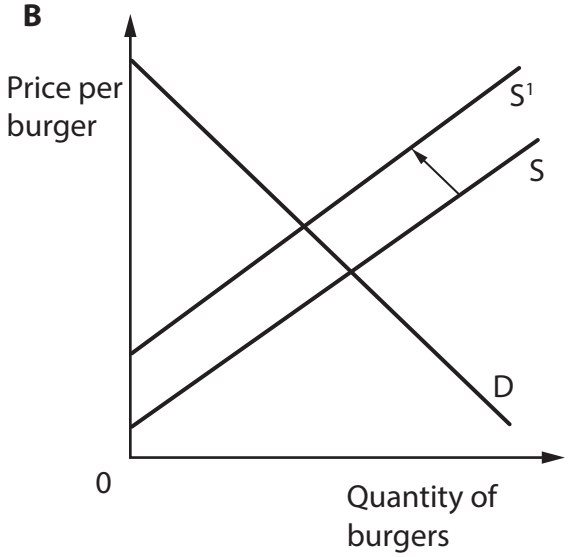
3 (a) Kerala in India has introduced an indirect tax of 14.5% on products containing high levels of fat, such as burgers. Which one of the following diagrams shows the likely impact of the introduction of this indirect tax on the market for burgers?

(1)

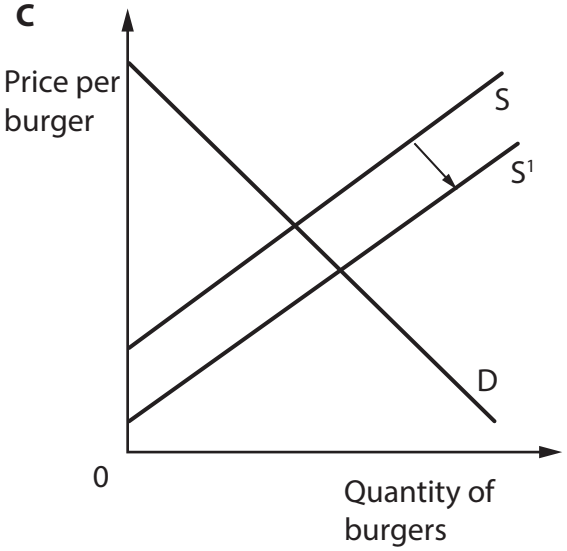
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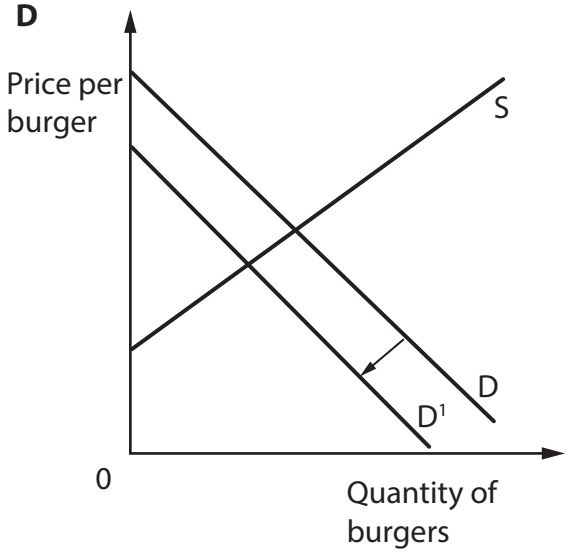
B



C



D



Answer

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(b) Explanation

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(Total for Question 3 = 4 marks)

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4 Many Irish customers have never switched to another energy supplier despite the possibility of saving up to €360 a year. A survey suggested that 31% found it difficult to tell whether another energy supplier would be cheaper.

(a) The most likely reason consumers do not switch is that they

(1)

A do not feel valued by current providers

B have symmetric information

C are free riders

D are poor at computation

Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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

(1)

A create an incentive to increase production of a good as the price falls

B allow governments to correct market failure

C provide goods free to consumers

D ration resources by allowing the price to rise when supply falls

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 (a) Which one of the following is likely to result in an increase in consumer surplus **and** an increase in producer surplus in the market for Blu-ray discs?

(1)

A A fall in the price of a substitute for Blu-ray discs

B A rise in costs for firms producing Blu-ray discs

C An increase in productivity of workers producing Blu-ray discs

D A rise in the price of a complement for Blu-ray discs

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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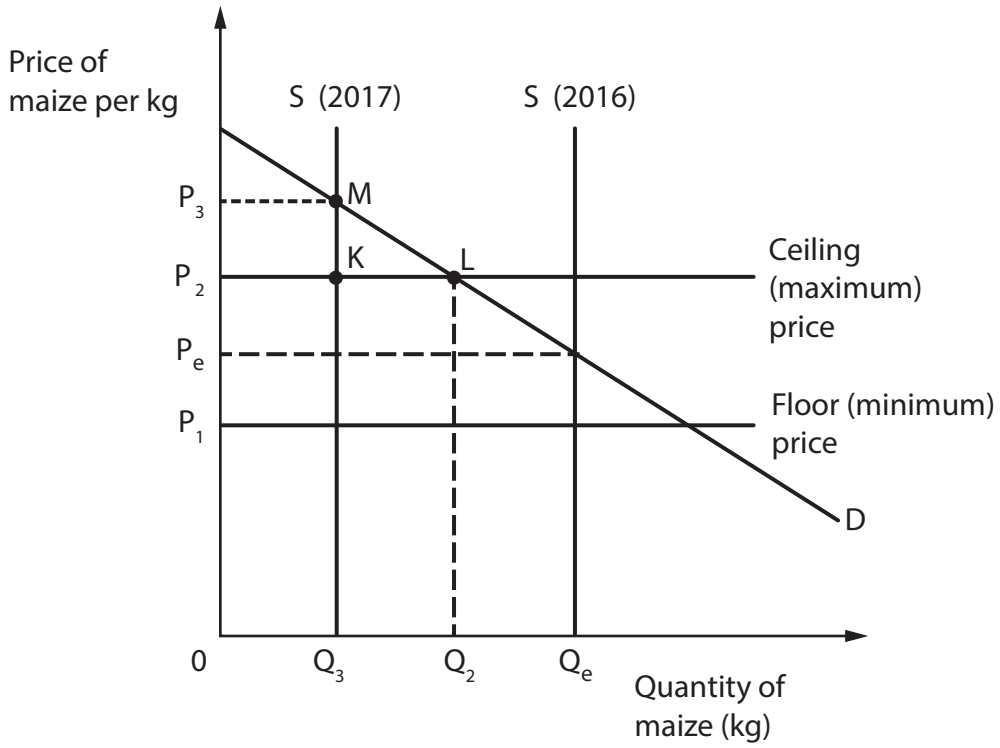
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QUESTION 7 BEGINS ON THE NEXT PAGE.

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7 The diagram shows a government-operated buffer stock scheme in the market for maize.



(a) In 2017 poor weather caused supply to shift to S (2017). The operation of the buffer stock scheme to prevent the price rising above the ceiling (maximum) price will mean

(1)

A government spending equal to the area KLQ_2Q_3

B government spending equal to the area LMQ_3Q_2

C government revenue equal to the area LMK

D government revenue equal to the area KLQ_2Q_3

Answer

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) In a mixed economy, government failure occurs if

(1)

A external benefits from vaccinations are ignored by the price mechanism

B external costs are internalised by the price mechanism

C businesses incur excessive costs to meet new health and safety regulations

D firms exit a market in response to a fall in demand

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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QUESTION 9 BEGINS ON THE NEXT PAGE.

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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 30.

9 The market for wheat and livestock

Extract 1 Wheat price falls to lowest level in a decade

From August 2013 to August 2016 the price of wheat per metric tonne fell from US$305.50 to US$127.90. This was caused by good harvests in three of the world's largest growers, Russia, Canada and the USA, after extensive planting and good weather.

In the USA, the 2016 winter wheat harvest was 21% up from 2015 causing farmers to run out of room to store the crop. Most farms achieved two crops during the year as it takes about six months for wheat to grow.

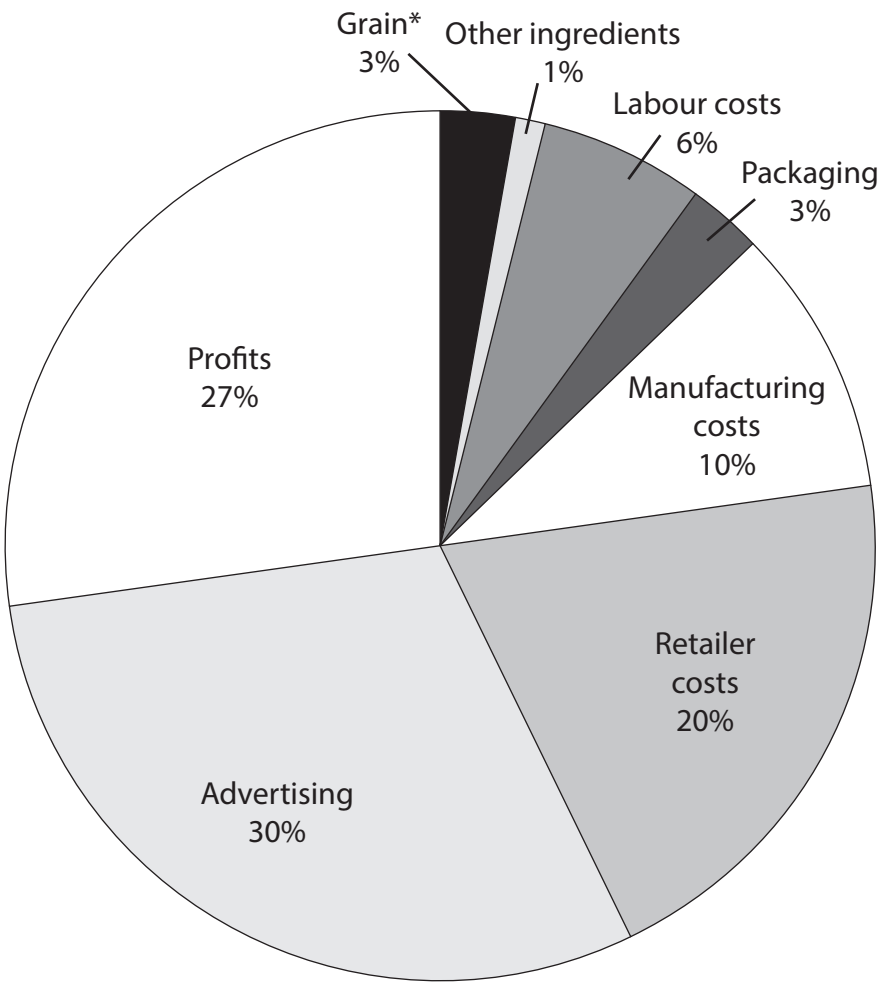
Average consumption of wheat per person is 67kg each year, much of it in the form of breakfast cereals. A decrease in the price of wheat should help producers of breakfast cereals reduce their production costs. Heavy advertising and effective branding of breakfast cereals result in low price elasticity of demand.

(Source: adapted from 'Wheat price falls to lowest level in a decade' by Gregory Meyer August 28, 2016, http://www.ft.com/cms/s/0/75fdb856 6b0c-11e6-ae5b-a7cc5dd5a28c.html#ixzz4KLpuYdjC)

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Figure 1 How the price of a box of breakfast cereal is broken down



*Grain – including wheat, maize, rice and barley

(Source: https://uk.finance.yahoo.com/news/the-real-cost-of----cereal-150238372.html)

Extract 2 How does eating meat harm the environment?

With the falling price of grain crops some farmers may switch to livestock. Increasing livestock production may create significant problems. Precious water and soil are lost, trees are cut down to make space for grazing, and untreated animal waste pollutes rivers and streams. One report stated that 51% of greenhouse gas emissions are caused by livestock farming.

It takes 100 times more water to produce 1kg of meat than it does to produce 1kg of wheat. Producing just one meat burger uses enough fossil fuel to drive a small car 20 miles. A typical pig farm generates the same amount of raw waste as a city of 12 000 people. The meat industry is directly responsible for 85% of all soil erosion in the USA.

(Source: adapted from 'How does eating meat harm the environment?' http://www.peta.org/about-peta/faq/how-does-eating-meat-harm-the-environment/)

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(a) With reference to Extract 1, explain why the price of wheat decreased from August 2013 to August 2016. Illustrate your answer with a supply and demand diagram.

(6)

(b) With reference to Extract 1, explain whether the supply of wheat is likely to be price elastic or price inelastic.

(4)

(c) With reference to Figure 1 and Extract 1, evaluate the impact of the fall in the price of wheat on the manufacturers of breakfast cereals.

(14)

(d) With reference to Extract 2, assess the impact of farmers switching from grain crops to livestock. Illustrate your answer with an externalities diagram.

(14)

(e) With reference to Extract 2 and your own knowledge, discuss **two** government policies that could be used to reduce the external costs of livestock farming.

(10)

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(a) With reference to Extract 1, explain why the price of wheat decreased from August 2013 to August 2016. Illustrate your answer with a supply and demand diagram.

(6)

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(b) With reference to Extract 1, explain whether the supply of wheat is likely to be price elastic or price inelastic.

(4)

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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 Tourism

Figure 1 Average income elasticity of demand for taking holidays in the UK from selected countries

Spain	Ireland	USA
1.43	1.72	2.01

(Source: http://www.aphr.ru/images/books/pdf/european-journal-of-economic-studies-3.pdf)

Figure 2 Real GDP per capita growth in 2015 (selected countries)

Spain	Ireland	USA
3.4	7.3	1.6

(Source: http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG)

Figure 3 Average price elasticity of demand for taking holidays in the UK from selected countries

France	Germany	Spain	The Netherlands	Ireland	USA
–0.53	–0.33	–1.38	–0.61	–1.86	–0.42

(Source: http://www.aphr.ru/images/books/pdf/european-journal-of-economic-studies-3.pdf)

Extract 1 Thailand imposes tourism ban after coral damage

Islands off Phuket, Thailand, have been closed to protect endangered coral reefs. Government officials have banned tourist activities to prevent further damage to coral reefs at popular tourism sites. The officials ordered the removal of facilities and structures used for tourist activities.

Environmental damage is being caused by 60 speedboats per day. Tourist companies anchor boats on the corals, tourists walk on the coral reefs and collect some of it as a souvenir of their trip. All of these activities negatively impact the marine ecosystem and cause deterioration in the natural environment. About 80% of the coral reefs in the area have suffered damage.

The Thai authorities plan to limit the number of tourists but some doubt the ability to enforce the regulation. Others have called for a tourist tax but this would need to be set at a very high level to put off customers from wealthy parts of the world. Revenues raised could then be used to protect the coral reefs. Another proposal is to subsidise eco-tourism for hotels that minimise the impact on the environment.

(Source: adapted from 'Tiny Phuket islands tourism ban after coral damage', Jon Fernquest, 25 May 2016. http://www.bangkokpost.com/learning/work/987985/tiny-phuket-islands-tourism-ban-after-coral-damage)

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Extract 2 A much higher minimum wage for Los Angeles hotel workers

In 2015 the minimum wage for workers in Los Angeles hotels was increased from $9 to $15 an hour, which affected 3 000 hotel workers. Hotel owners warned that the increase would force them to cut staff and services, reduce investment and raise prices. As a result of the increase, Holiday Inn Los Angeles, made seven employees redundant, cutting staff to 95. Many hotels have chosen to absorb the increase in wages by increasing restaurant food prices by 15% to 30%.

Hotel workers benefited from higher earnings and many who had second jobs were able to give one up. One hotel worker commented that he now gets to 'spend quality time with my kids'.

In 2015 the growth of the economy encouraged some hotel owners to invest in new developments in Los Angeles.

(Source: adapted from 'New amenity at L.A. hotels: a much higher minimum wage', by Alex Dobuzinskis, Editing Sara Catania, Daniel Wallis and Mary Milliken, April 3 2016, http://www.reuters.com/article/us-california-minimumwage-hotels-idUSKCN0X00EN)

(a) With reference to Figure 1 and Figure 2, explain the impact of the increase in real GDP per capita in Ireland on the demand for holidays in the UK. Illustrate your answer with a supply and demand diagram.

(6)

(b) With reference to Figure 3, explain whether the demand for holidays in the UK is price elastic or price inelastic.

(4)

(c) With reference to Extract 1, discuss the external costs caused by tourism in Thailand.

(14)

(d) With reference to Extract 1, assess **two** measures that the Government could implement to reduce the negative impact of tourism in Thailand.

(10)

(e) With reference to Extract 2, evaluate the impact of the increase in the minimum wage of hotel workers in Los Angeles. Use a relevant diagram in your answer.

(14)

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(a) With reference to Figure 1 and Figure 2, explain the impact of the increase in real GDP per capita in Ireland on the demand for holidays in the UK. Illustrate your answer with a supply and demand diagram.

(6)

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(b) With reference to Figure 3, explain whether the demand for holidays in the UK is price elastic or price inelastic.

(4)

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(c) With reference to Extract 1, discuss the external costs caused by tourism in Thailand.

(14)

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(d) With reference to Extract 1, assess **two** measures that the Government could implement to reduce the negative impact of tourism in Thailand.

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(e) With reference to Extract 2, evaluate the impact of the increase in the minimum wage of hotel workers in Los Angeles. Use a relevant 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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