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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

Monday 15 May 2017 – Morning
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 Statement 1

Subsidies paid to farmers in the European Union are unfair to farmers in Ghana.

Statement 2

European Union farm subsidies increase the supply of agricultural commodities.

(a) Which of the following best describes the two statements above?

(1)

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

Answer ☐

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(b) Explanation

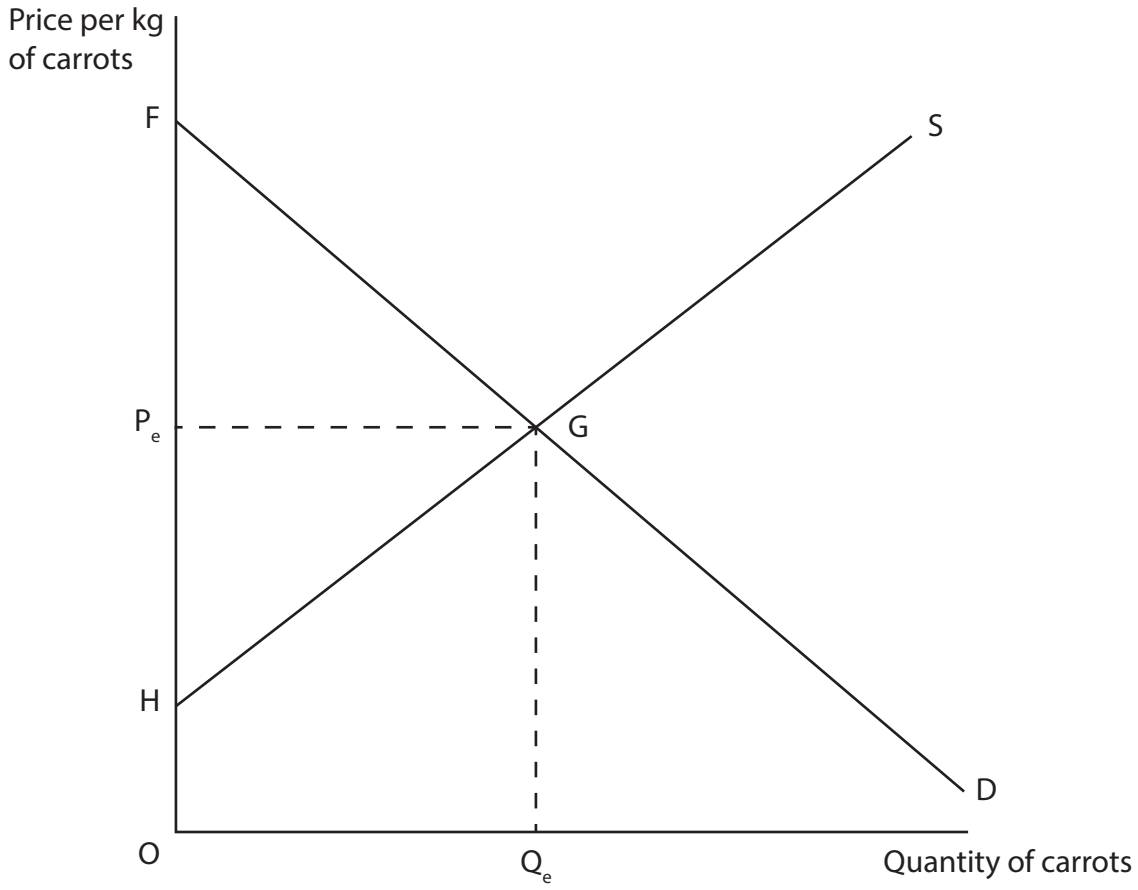
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(Total for Question 1 = 4 marks)

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2 The diagram shows the market for carrots where the initial equilibrium is at price P_e and quantity Q_e.



(a) Good weather conditions lead to an increase in the supply of carrots. This is most likely to cause the

(1)

A price to fall and producer surplus to fall

B price to rise and producer surplus to rise

C price to fall and consumer surplus to rise

D price to rise and consumer surplus to fall

Answer ☐

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(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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3 The Competition and Markets Authority in the UK has reported that bank customers could save £70 by switching their current account to another bank. However, few customers have moved their account to another bank.

(a) This may be explained by customers

(1)

A maximising utility

B being good at computation

C experiencing external costs

D exhibiting habitual behaviour

Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 A hotel offers a buffet breakfast where guests can visit the buffet as many times as they like. 90% of customers visit the buffet two times and only 10% visit three times or more.

(a) Which one of the following best explains this behaviour?

(1)

A The free rider problem

B Diminishing marginal utility

C Excess demand for buffet breakfasts

D Consumers need to feel valued

Answer ☐

(b) Explanation

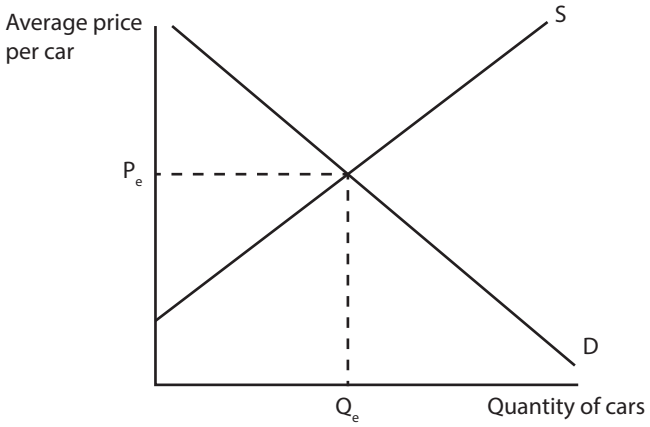
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(Total for Question 4 = 4 marks)

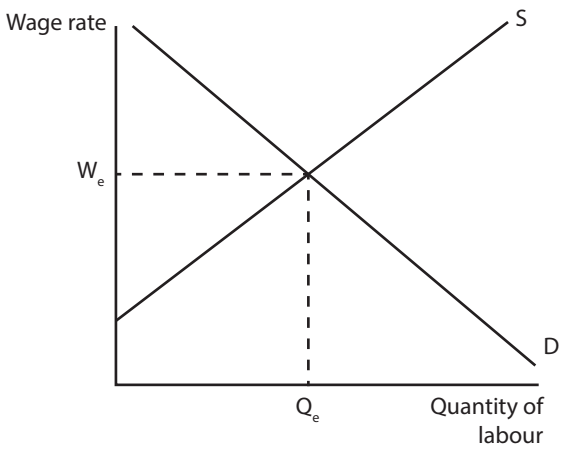
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5 The diagrams show the global market for cars and the labour market for car factory workers.

Global market for cars



Labour market for car factory workers



Global car sales increased from 65 million in 2012 to 71 million in 2013. A significant cause was the rise in demand in China, where sales increased from 13 million to 18 million during the same period.

(a) Ceteris paribus, this increase in demand for cars is most likely to cause which one of the following changes?

(1)

	Car prices	Wages of car workers	Employment of car workers
A	Fall	Fall	Fall
B	Fall	Rise	Fall
C	Rise	Fall	Rise
D	Rise	Rise	Rise

Answer ☐

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(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 The table below shows estimates of the price elasticity of supply and price elasticity of demand for natural gas.

	Natural Gas
Price elasticity of supply	+0.14
Price elasticity of demand	–0.10

(Source: http://www.usaee.org/usaee2013/submissions/Abs/Ponce_Neumann_Elasticities_gas_supply.pdf, http://www.mackinac.org/1247)

(a) It can be deduced from the data that

(1)

A a 10% increase in the price of natural gas would cause a more than 10% increase in the supply

B the demand for natural gas is more responsive to changes in price than supply

C natural gas is a normal good with income inelastic demand

D the demand and supply of natural gas are both price inelastic

Answer ☐

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(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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7 (a) The introduction of a minimum wage above the market equilibrium wage for unskilled agricultural workers is most likely to cause

(1)

A an increase in unemployment

B an extension of demand for labour

C an increase in employment

D a contraction of supply of labour

Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) China plans to introduce a Carbon Emissions Trading Scheme in 2017. The objective of this tradable pollution permit scheme is to reduce carbon emissions by

(1)

A providing subsidies for firms who manage to reduce their carbon emissions

B forcing polluting firms to buy permits from firms that do not need their full allowance

C taxing firms that pollute over their allowances

D imposing fines on firms that pollute up to their allowances

Answer ☐

(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.

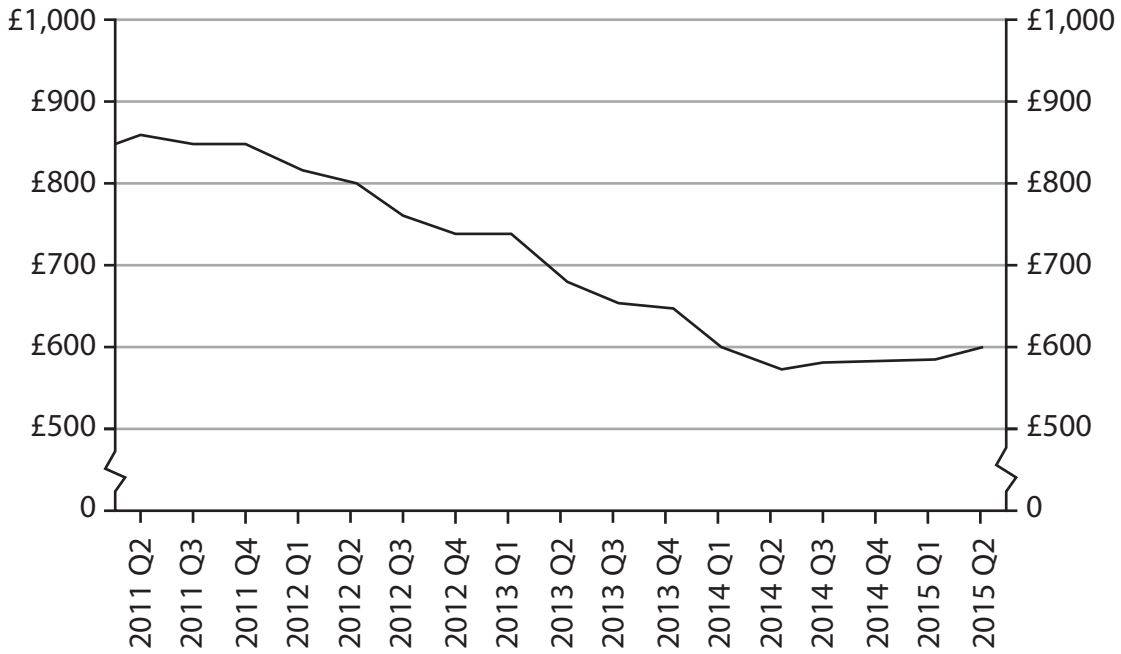
You should spend 55 minutes on this section.

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

Question 10 starts on page 28.

9 UK car insurance market

Figure 1 Average price for car insurance in the UK, 2nd quarter (Q2) 2011 to 2nd quarter 2015



(Source: http://www.confused.com/car-insurance/price-index/overall)

Extract 1 Falling car insurance prices

The average price of car insurance fell by a third between Q2 2011 and Q2 2014. Prices are falling because of an increase in the number of insurance companies offering car insurance. This means customers are more able to find a better deal elsewhere and therefore are more likely to substitute between insurance companies. At the same time, some policies are being linked with complementary products like breakdown insurance. Providing the two policies means lower administration costs for the insurance company. In addition, changes to the law have helped reduce the number of false claims reducing the costs to the insurance companies.

However, increased competition between insurance companies has led to a reduction in their profit margins. For every £100 they receive from customers they have been paying out £99 in claims.

(Source: adapted from 'Car insurance premiums fall at record rate' by Michael Smith, January 23 2014, http://www.moneysavingexpert.com/news/insurance/2014/01/car-insurance-premiums-fall-at-record-rate 'Surprise 15% fall in car insurance prices' by Patrick Collinson, July 9 2014, http://www.theguardian.com/money/2014/jul/09/car-insurance-15-percent-price-fall)

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Extract 2 Impact of increased tax on insurance premiums

In November 2015, the UK Government increased the indirect tax on home and motor insurance, from 6% to 9.5%. The new higher tax rate should generate an extra £1.75 billion a year for the Government.

Some are worried that this new higher tax will lead customers to decide car insurance is simply too expensive and not buy it. However, it is illegal to drive a car in the UK without car insurance.

(Source: adapted from 'Insurance premium tax hike set to hit businesses and consumers' by Jon Yeomans, 8 July 2015, http://www.telegraph.co.uk/finance/personalfinance/insurance/11727118/Budget-2015-Insurance-premium-tax-hike-set-to-hit-businesses-and-consumers.html)

Extract 3 Costs of uninsured drivers

2.8% of all UK car drivers are estimated to drive without insurance. Accident claims against uninsured drivers increased from 12 884 in 2013 to 13 483 in 2014.

Many of these drivers are not aware of the risk involved in driving uninsured. The police can take cars away if they are uninsured. Uninsured drivers face a £300 fine and an increased risk of losing their driving licence. Uninsured drivers kill 130 people and injure 26 500 every year. The annual cost of accidents caused by uninsured drivers is estimated to be £400 million to the insurance companies.

Driving without car insurance may not result from a lack of information but may be a rational decision by drivers. The average car insurance policy costs £2 000 for young drivers.

The Government has been encouraged to subsidise car insurance for young people. An alternative is to provide information to all drivers about the effects of being uninsured. Another idea would be to introduce a maximum price to prevent insurance companies from charging very high prices to young people.

(Source: adapted from http://www.mib.org.uk/reducing-uninsured-driving/what-we-do/ 'Half a million motorists driving without insurance because court fines are just 'a fraction' of the cost of annual premiums' by Ray Massey, 4 April 2014, http://www.thisismoney.co.uk/money/cars/article-2596859/Half-million-motorists-driving-without-insurance-fines-just-fraction-cost-premium.html)

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(a) With reference to Figure 1 and Extract 1, explain why 'The average price of car insurance fell by a third between Q2 2011 and Q2 2014' (Extract 1, line 1). Use a supply and demand diagram in your answer.

(6)

(b) With reference to Extract 1, explain the difference between complements and substitutes.

(4)

(c) With reference to Extract 2, evaluate the likely impact of an increase in indirect tax on car insurance. Refer to insurance companies, car drivers and the UK Government in your answer.

(14)

(d) Discuss whether asymmetric information is the main reason why '2.8% of all UK car drivers are estimated to drive without insurance' (Extract 3, line 1).

(10)

(e) With reference to the information provided and your own knowledge, evaluate the impact of measures the Government could take to reduce the number of uninsured drivers.

(14)

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(6)

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(b) With reference to Extract 1, explain the difference between complements and substitutes.

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(c) With reference to Extract 2, evaluate the likely impact of an increase in indirect tax on car insurance. Refer to insurance companies, car drivers and the UK Government in your answer.

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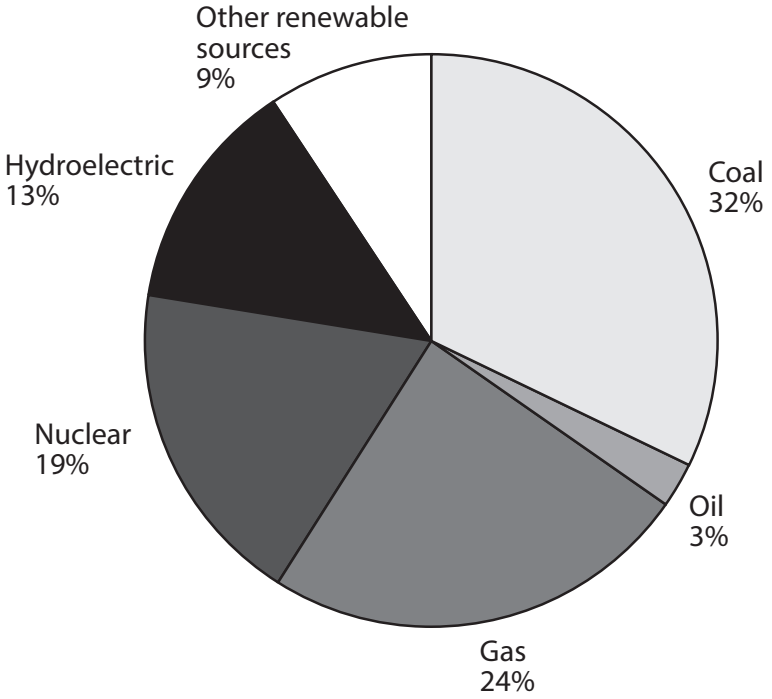
QUESTION 10 BEGINS ON THE NEXT PAGE.

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

10 Electricity generation market

Figure 1 Sources of electricity generation, for selected developed countries, 2014



(Source: http://www.iea.org/publications/freepublications/publication/energy-balances-of-oecd-countries---2015-edition---excerpt.html)

Extract 1 Wind turbines work out cheaper when external costs are included

A report by the European Union has found that onshore wind turbines are cheaper than coal, gas or nuclear energy when external costs like poor air quality, pollution and climate change are taken into account.

The report says that, for each megawatt per hour of electricity generated, onshore wind costs €105, gas €164 and coal €233. Nuclear power, offshore wind and solar energy all cost €125 for each megawatt per hour.

Renewables are criticised for being too expensive. Companies generating electricity from renewable sources received €38.3 billion of government subsidies in 2012. Companies generating electricity from gas, coal and nuclear power received €22.3 billion of subsidies. The price of solar panels is decreasing rapidly so reducing the costs of generating electricity by this means.

(Source: adapted from 'Wind power is cheapest energy says EU' by Arthur Neslen, 13 October 2014, http://www.theguardian.com/environment/2014/oct/13/wind-power-is-cheapest-energy-unpublished-eu-analysis-finds)

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Extract 2 Wind power generates 140% of Denmark's electricity demand

On one day in July 2015, unusually high winds allowed Denmark to meet all of its electricity needs and it was able to sell surplus electricity to Germany, Norway and Sweden. Germany and Norway use this electricity in hydropower systems which, in effect, store the energy for future use. Denmark was producing 140% of the electricity it needed and its wind farms were not even operating at their full capacity.

Denmark is increasing its number of wind farms which means it will produce more of its electricity from renewable sources well before 2020. These wind farms will take some time to build before they can start to generate electricity. Around three-quarters of Denmark's wind capacity comes from onshore wind farms, which have strong Government support.

(Source: adapted from 'Wind power generates 140% of Denmark's electricity demand' by Arthur Neslen, 10 July 2015, http://www.theguardian.com/environment/2015/jul/10/denmark-wind-windfarm-power-exceed-electricity-demand)

Extract 3 Wind power is the main source of electricity in Spain

In Spain there has been an increase in electricity generated using wind power and hydroelectricity. As a result, carbon emissions fell by more than 23%. For the first time ever wind power was the largest generator of electricity. Wind turbines met 21.1% of electricity demand in Spain while nuclear power generated 21%.

In 2013, wind farms are estimated to have generated 12% more electricity than in 2012, while high levels of rainfall meant hydroelectric power output was 16% higher.

An increase in wind power capacity and solar capacity meant that, by the end of 2013, renewables represented 49.1% of electricity generation in Spain.

Electricity generation using gas fell 34.2%, coal fell 27.3%, and nuclear power fell 8.3%. The shift towards renewable energy and a fall in demand for electricity led to a reduction in emissions.

(Source: adapted from 'Wind power was Spain's top source of electricity in 2013' by James Murray, 6 January 2014, http://www.theguardian.com/environment/2014/jan/06/wind-power-spain-electricity-2013)

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(a) 'The price of solar panels is decreasing rapidly' (Extract 1, Line 10). Explain the likely impact of this on the equilibrium price and quantity of electricity. Use a supply and demand diagram in your answer.

(6)

(b) With reference to Figure 1 and Extract 1, explain the difference between renewable and non-renewable resources.

(4)

(c) Examine the external costs of using coal and gas to generate electricity. Include a relevant diagram in your answer.

(14)

(d) With reference to Extract 2 and 3, to what extent is the price elasticity of supply for electricity elastic or inelastic?

(10)

(e) Assess the likely benefits of a decision by the Government to encourage the construction of more wind farms in Denmark.

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(a) 'The price of solar panels is decreasing rapidly' (Extract 1, Line 10). Explain the likely impact of this on the equilibrium price and quantity of electricity. Use a supply and demand diagram in your answer.

(6)

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

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