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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 10 October 2016 – 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) One function of the price mechanism is to

(1)

A ration scarce resources by allowing the price to rise when demand for a product falls

B provide signals to producers and consumers about changes in supply and demand when prices change

C create an incentive for producers to decrease the quantity supplied of a product when price rises

D encourage government intervention to allocate scarce resources

Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 (a) One of the roles of the state in a mixed economy is to

(1)

A subsidise goods that generate external costs

B maximise the use of non-renewable resources

C allocate resources to the provision of public goods

D impose indirect taxation on education

Answer ☐

(b) Explanation

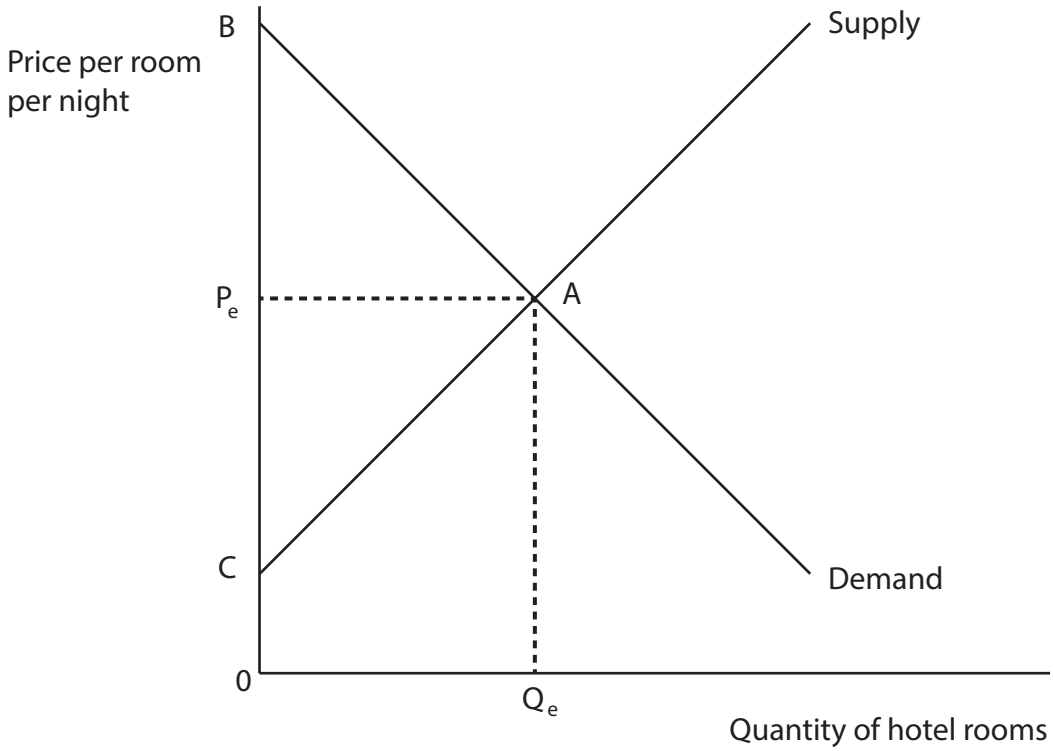
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(Total for Question 2 = 4 marks)

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3 The following diagram shows the market for luxury hotels in India. The current price is Pe and quantity Qe.



(a) The Indian Government increased the indirect tax on rooms at luxury hotels from 10% to 15% in August 2015. The likely effect on price and producer surplus is

(1)

	Price	Producer surplus
A	Rise	Rise
B	Rise	Fall
C	Fall	Rise
D	Fall	Fall

Answer ☐

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 Since 2015, the Greek authorities have had the ability to identify uninsured car drivers. This has led to an increased number of uninsured drivers being fined €500. Uninsured drivers who have an accident can lose their licence for 2-3 years. Despite this, 15% of drivers in Greece are uninsured.

(a) The most likely explanation for this under-consumption of car insurance in Greece is that

(1)

A there is zero opportunity cost when buying car insurance

B consumers need to feel valued

C symmetric information exists in the car insurance market

D asymmetric information exists in the car insurance market

Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 Despite British Gas being one of the most expensive energy providers, 40% of its gas customers have been with the company for more than 10 years. It is claimed that consumers could save up to £254 per year by changing to another energy provider.

(a) The most likely explanation why consumers do not change to another energy provider is that they

(1)

A exhibit habitual behaviour

B act rationally

C have perfect information about gas prices

D experience geographical immobility

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 The data below show the real income growth per head for selected countries and the change in the quantity of tourists visiting Singapore from these countries in 2014.

Country	Real income growth per head	Change in quantity of tourist visits to Singapore
Indonesia	5%	–2%
China	6.9%	–20%
Hong Kong	2.5%	+17%
Germany	1.5%	+5%

(a) Ceteris paribus, it can be deduced from the data that, in 2014, the demand for tourist visits to Singapore was

(1)

A income elastic in both Hong Kong and Germany

B price elastic in China and Hong Kong

C price inelastic in Indonesia and Germany

D income inelastic in China

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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7 It has been estimated that the average price elasticity of demand for broadband internet services is –0.43 in 30 developed countries.

(a) It can be deduced from this estimate of price elasticity of demand that

(1)

A a decrease in the price of broadband internet services will increase total revenue

B an increase in the price of broadband internet services will increase total revenue

C broadband internet services are an inferior good

D any change in the price of broadband internet services will leave total revenue unchanged

Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 Currently each employee of Dymag Performance Racing Wheels produces complete wheels from start to finish. Dymag has recently received a government subsidy of £7 million to help it apply the division of labour to the production process.

(a) This application of the division of labour is most likely to

(1)

A reduce boredom within the workforce

B decrease the level of production

C reduce output per worker

D decrease the cost of production per wheel

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.

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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 26.

9 The growth of quinoa

Figure 1 Price of quinoa, $US per kilogram



(Source: adapted from 'Quinoa prices fall to Rise in Production' by Loraine Hudson, April 27, 2015)

Extract 1 Quinoa prices

Quinoa is a grain-type cereal that is very popular in the USA and Europe because of its health benefits. It has been identified as a superfood because it contains more protein than brown rice or potatoes, is gluten-free and is rich in vitamins and minerals. It can be used to make bread, noodles and breakfast cereals.

The Food and Agriculture Organization (FAO) declared 2013 "International Year of Quinoa," educating more of the world of its benefits.

Bolivia and Peru accounted for over 95% of global production of quinoa in 2015. The cereal is grown in cool, dry areas of the Andes where little else grows because of a lack of water. As more consumers became aware of the benefits of quinoa, farmers increased the amount of land devoted to grow the crop to meet the rising demand. However it can take several years to establish new growing areas.

The price of quinoa fell 29% between January 2014 and March 2015, due to increased harvests in Bolivia and Peru. Farmers in other countries have also been encouraged to grow quinoa by the high prices in 2012 and 2013. For example, Canada increased the land used to grow quinoa by 200% in 2014.

(Source: adapted from 'Quinoa prices fall due to rise in production' by Loraine Hudson, April 27, 2015, https://spendmatters.com/2015/04/27/quinoa-prices-fall-finally-due-to-rise-in-production/)

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Extract 2 The truth about quinoa

Quinoa is a good substitute for meat which has helped to boost demand. As a result the price of quinoa rose significantly in 2013. This meant that poorer people in Peru and Bolivia, for whom it was once a nourishing staple food, could no longer afford to buy it. It was cheaper for them to buy imported fast food.

However, the rise in the price of quinoa was more than offset by increases in the national minimum wage in Bolivia. Minimum wages increased from 680 to 1 440 Bolivian Boliviano per month between 2011 and 2015. This meant many workers earned enough to buy the crop even at the higher prices. One problem is that, with substantial increases in the minimum wage each year, workers expect their wages to rise and have less incentive to work harder as they will get a wage rise regardless of their effort. Many employers cannot afford to pay such high wages and this has caused increased unemployment. Some of those made unemployed have found work in the informal sector earning less than the minimum wage.

To meet the increased demand for quinoa farmers started to farm more intensively. The problem with this is the potential degrading of the soil. By specialising in the production of this single crop, farms are attracting more pests. Therefore, farmers are having to use more pesticides.

Most quinoa is grown in Peru and Bolivia. This means there is a significant number of miles to transport the crop to the USA and Europe. These air miles create environmental damage.

(Source: adapted from 'Can vegans stomach the unpalatable truth about quinoa?' by Joanna Blythman, 16 January 2013, http://vegnews.com/articles/page.do?pageId=6345&catId=5)

Extract 3 Quinoa subsidies in Bolivia

Given the health benefits of eating quinoa, the Bolivian Government introduced subsidies to quinoa producers from 2010. These subsidies contributed to the increase in quinoa consumption in Bolivia from 4 000 tonnes in 2010 to 20 000 tonnes in 2013.

(Source: adapted from 'Quinoa boom a mixed blessing for Bolivians' by Michele Bertelli, Javier Sauras, 25 July 2013, http://www.aljazeera.com/indepth/features/2013/07/201371013540775237.html)

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(a) With reference to Figure 1 and the final paragraph of Extract 1, explain why 'The price of quinoa fell 29% between January 2014 and March 2015'. Use a supply and demand diagram in your answer.

(6)

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

(4)

(c) With reference to Extract 2, assess the economic effects of the growth in the production of quinoa. Refer to the concept of external costs in your answer.

(14)

(d) With reference to Extract 2 and your own knowledge, evaluate the possible economic effects of the increase in the national minimum wage in Bolivia on the labour market for workers on quinoa farms. Use an appropriate diagram in your answer.

(10)

(e) With reference to Extract 3 and your own knowledge, evaluate the likely impact on producers, consumers and the Bolivian Government of subsidising quinoa production.

(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 High Speed 2 (HS2) railway investment

Figure 1 The HS2 route in England, UK



HS2 Phase one

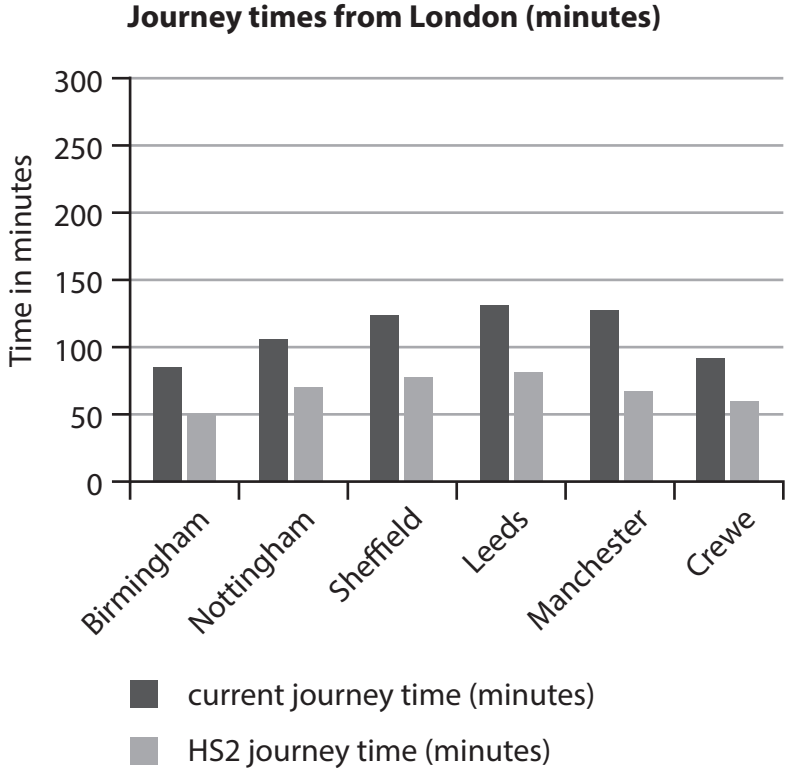
HS2 Phase two

(Source: http://groupspaces.com/CRAG/announcements/?page=21)

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Figure 2 Current rail journey times from London and estimated HS2 journey times (in minutes)



(Source: http://www.theguardian.com/news/datablog/2014/mar/17/hs2-change-journey-times-london)

Extract 1 Costs and benefits of HS2

HS2 will result in 330 miles (531 kilometres) of railway track being built. Phase 1 of HS2 will create a rail link from London to Birmingham. Its construction will create 40 000 jobs. However, it will mean 14 historic buildings along the route could be destroyed. A £500 million tunnel will be built through the Chiltern Hills, an area of outstanding natural beauty.

HS2 will enable trains to travel at 400kph, faster than any other high speed train in Europe. However, travelling at this speed will use 3 times more fuel than a train travelling at 200kph.

Two million trees will be planted along the HS2 route. However, an area the size of a large city will be concreted over.

It is estimated that 4.5 million air trips and 9 million road trips a year will be saved, helping to cut carbon emissions. HS2 is expected to generate £59 billion of benefits. Costs have risen from the initial forecast of £32.7 billion to £36.4 billion.

(Source: adapted from http://www.rail.co.uk/static-images/infographic.jpg)

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Extract 2 HS2 should be built to benefit UK regions

HS2 is projected to generate significant regional benefits, including:

- boosting Birmingham and the West Midlands economy by £4 billion per year
- creating 50 000 jobs in the West Midlands
- creating 2 000 HS2 operational and maintenance jobs
- providing a larger pool of employees for local businesses, improving productivity and reducing business costs
- providing capacity for more rail freight, allowing the West Midlands to increase trade with the rest of the UK and Europe
- reducing congestion on local and national roads
- reducing carbon emissions
- making the West Midlands more attractive for foreign investment
- HS2 requires much less land than a new motorway.

(Source: adapted from https://gohs2.wordpress.com/benefits-of-hs2/)

Extract 3 National College will lead to 2 000 more engineers

The UK Government is to establish a National College for High Speed Rail in Birmingham and Doncaster. It will provide training for the next generation of engineers ready for them to work on the HS2 project and beyond.

2 000 apprenticeships will be created to provide engineers for HS2. This will mean more young people will have the skills needed to build HS2.

(Source: https://www.gov.uk/government/news/new-high-speed-rail-college-to-be-in-birmingham-and-doncaster)

(a) With reference to the titles of Extract 2 and Extract 3, distinguish between positive statements and normative statements.

(4)

(b) With reference to the information provided, explain the likely impact of the HS2 project on the geographical mobility of labour.

(6)

(c) Assess the likely impact of the opening of the National College for High Speed Rail on the labour market for rail engineers. Include a supply and demand diagram in your answer.

(10)

(d) To what extent will the external benefits of HS2 outweigh the external costs?

(14)

(e) Evaluate the impact of the HS2 project on both manufacturers of high speed trains **and** airlines operating flights between London and Manchester.

(14)

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

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