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Write your name here

Surname	Other names

Centre Number | | | | | |

Candidate Number | | | | |

Edexcel IGCSE

Economics

Paper 1

Monday 6 June 2011 – Morning
Time: 2 hours 30 minutes

Paper Reference
4EC0/01

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** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 120.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Write your answers neatly and in good English.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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Some 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 ☒.

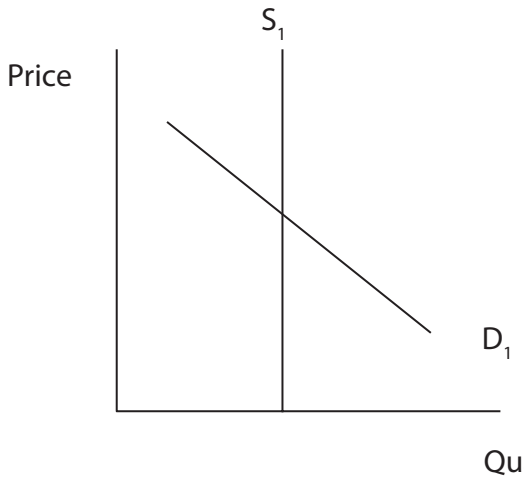
Question 1

Figure 1a shows the world demand and supply of tea in 2008.

(a) (i) On Figure 1a label the equilibrium price, P_1, and equilibrium quantity, Q_1.

(2)

Figure 1a



In 2009 the world price of tea rose by 15%. The price rise was due to

- a drought in the major tea producing countries of India, Sri Lanka and Kenya
- growing demand for tea in China and Russia.

(ii) On Figure 1a draw a new demand curve, D_2, to show the growth in demand for tea in China and Russia in 2009.

(1)

(iii) Identify **two** factors which may have led to an increase in the demand for tea in China and Russia in 2009.

1. .....

2. .....

(2)

(iv) On Figure 1a show the effect of a drought in the major tea producing countries.

(1)

(v) On Figure 1a label the new equilibrium price, P_2, taking into account the growth in demand for tea in China and Russia and the drought in major tea producing companies.

(1)

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(vi) It is always more difficult to increase the supply of agricultural goods than manufactured goods. Do you agree with this statement? Explain your answer.

(6)

(b) (i) Define income elasticity of demand.

(2)

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(ii) In 2009 Russian tea experts forecast that as incomes in Russia fall due to recession people will drink more tea. This suggests that in Russia tea is

☒ **A** a normal good

☒ **B** a luxury good

☒ **C** an inferior good

☒ **D** a complementary good.

(1)

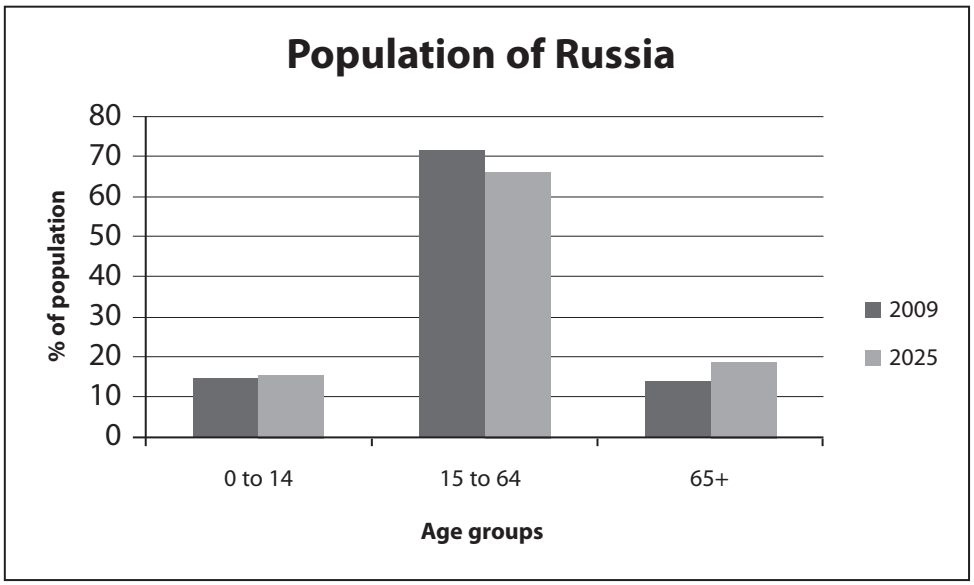
(iii) With reference to income elasticity of demand, explain the difference between a normal good and an inferior good.

(4)

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(c) Figure 1b shows the age distribution of the population of Russia in 2009 and the projected age distribution in 2025.

Figure 1b



(i) Between 2009 and 2025, the population of Russia can be described as an ageing population. Using the data in Figure 1b, explain the term ageing population.

(3)

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(ii) Which of the following is the most likely consequence of an ageing population?

☒ **A** Demand for toys will increase

☒ **B** More teachers will be employed

☒ **C** Government expenditure on health services will increase

☒ **D** Tax rates will fall.

(1)

(iii) Assess the effects of an ageing population on the firms in an economy.

(6)

(Total for Question 1 = 30 marks)

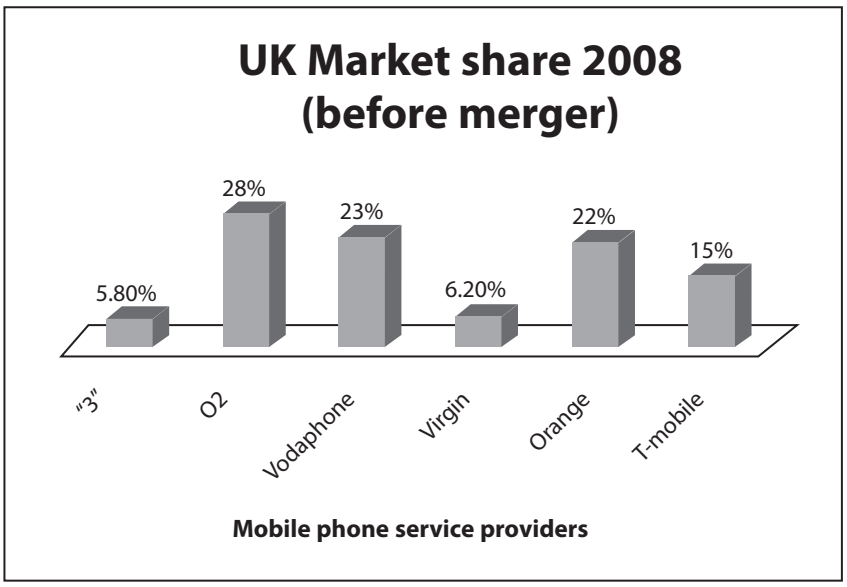
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Question 2

Mobile phone service providers supply the infrastructure (telephone masts) and services to customers.

Figure 2a shows the market share of these firms in the UK in 2008.

Figure 2a



In November 2008 two firms, T-Mobile and Orange, announced plans to merge their UK market operations.

(a) (i) With reference to the data, which firm was the largest service provider before the merger?

(2)

.....

.....

.....

(ii) With reference to the data, explain how the market share of the major firms would change after the merger.

(2)

.....

.....

.....

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(iii) The merger of T-Mobile and Orange is an example of

☒ **A** a horizontal merger

☒ **B** a vertical merger

☒ **C** diversification

☒ **D** privatisation.

(1)

(iv) Briefly explain **one** reason why a merger between two firms producing similar products may reduce the level of employment in the industry.

(2)

.....

.....

.....

.....

A spokesman for T-Mobile and Orange announced that the merger would benefit shareholders and consumers.

Fill in the missing words in the sentences below from the following list.

public	profits
losses	mixed
private	primary

(v) T-Mobile and Orange are in the ..... sector.

(1)

(vi) Shareholders will usually benefit if the merger increases .....

(1)

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(vii) Do mergers between firms producing similar goods and services always benefit consumers? Give reasons for your answer.

(6)

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(b) Cars produce negative externalities.

(i) Identify **one** negative externality produced by cars.

(1)

.....

(ii) Briefly explain **one** reason why governments try to reduce negative externalities produced by cars.

(2)

.....

.....

.....

.....

Study the following paragraph.

In 2009 the Canadian government introduced a state funded discount to buyers of electric cars. The South Korean government announced it would inject about 400 billion SKwon (US$341 million) into industries to develop the high-performance batteries needed in electric cars.

(iii) Briefly explain how the two government policies mentioned in the paragraph above could promote the production and sales of electric cars.

(4)

1. Canadian government's policy:

.....

.....

.....

2. South Korean government's policy:

.....

.....

.....

(iv) Apart from the two policies mentioned in the paragraph, identify **two** other policies a government can use to reduce negative externalities produced by petrol and diesel fuelled cars.

(2)

1. .....

2. .....

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(v) With reference to both methods identified in (iv), which is likely to be better at reducing negative externalities? Justify your answer.

(6)

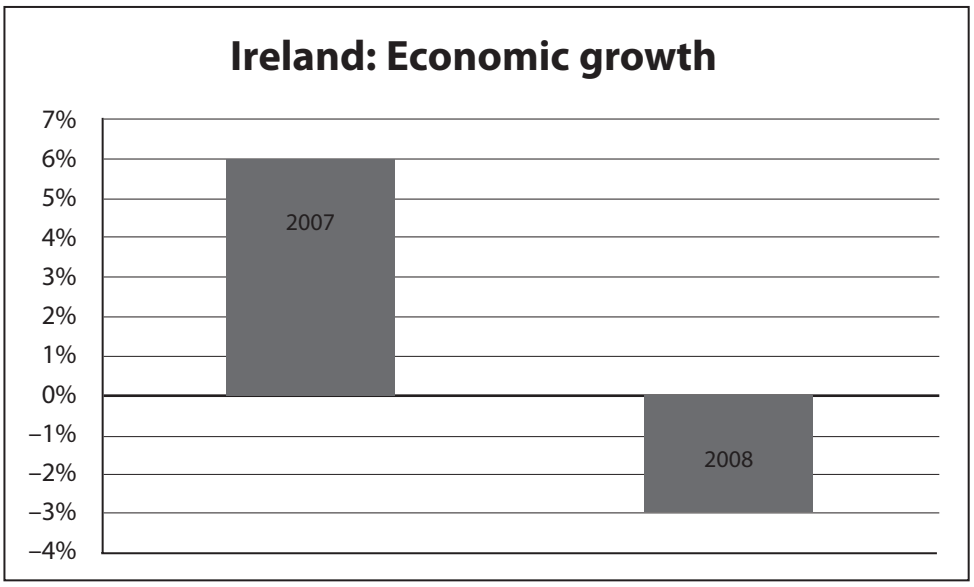
(Total for Question 2 = 30 marks)

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Question 3

Figure 3a shows the economic growth in Ireland in 2007 and 2008.

Figure 3a



(a) (i) Define economic growth.

(3)

(ii) With reference to the data in Figure 3a, explain why the economy of Ireland could be described as being in recession.

(3)

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(iii) Identify **two** reasons why governments attempt to increase economic growth.

(2)

.....

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Figure 3b

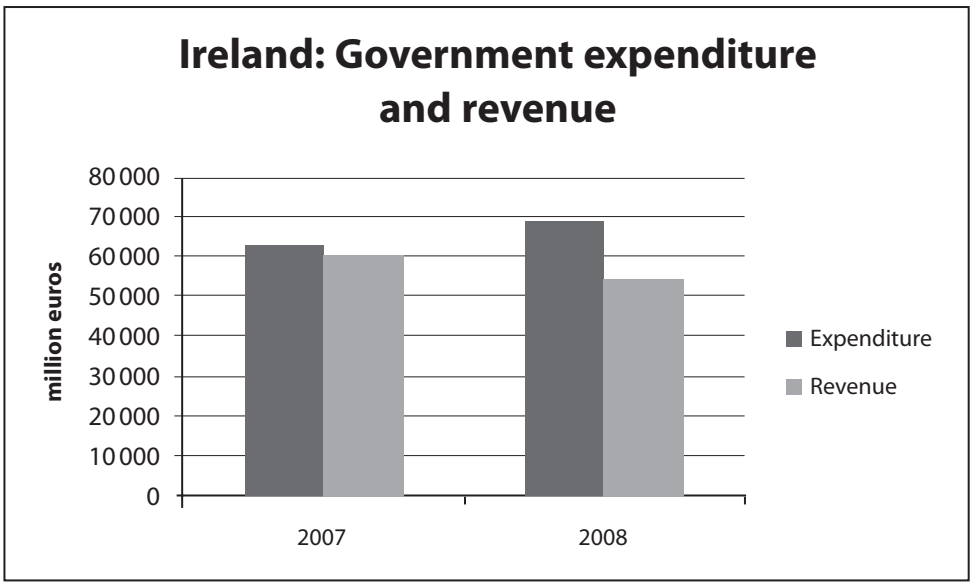


Figure 3b shows the government of Ireland's expenditure and revenue in 2007 and 2008.

(b) (i) What is meant by a budget deficit?

(2)

.....

.....

(ii) Using the data in Figure 3b, identify the year in which the budget deficit in Ireland was greater.

(1)

.....

(iii) Use of government expenditure and revenue to overcome recession in an economy is called

- ☒ **A** monetary policy
- ☒ **B** supply side policy
- ☒ **C** fiscal policy
- ☒ **D** deregulation.

(1)

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(iv) Briefly explain **one** reason why government revenue in Ireland fell during the recession of 2008.

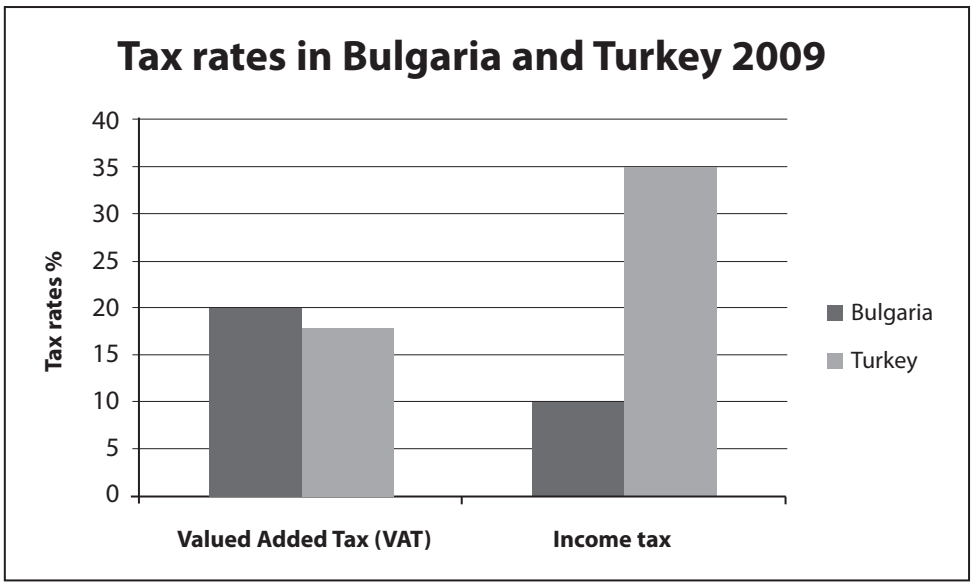
(3)

(v) Examine how a change in a government's spending could increase economic growth in a country.

(6)

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(c) **Figure 3c**



Study the data shown in Figure 3c.

(i) Which country had the higher rate of VAT in 2009?

(1)

.....

(ii) Which of the two taxes shown is a direct tax? Explain your answer.

(2)

.....

.....

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(iii) Do the advantages of indirect taxes outweigh their disadvantages? Explain your answer.

(6)

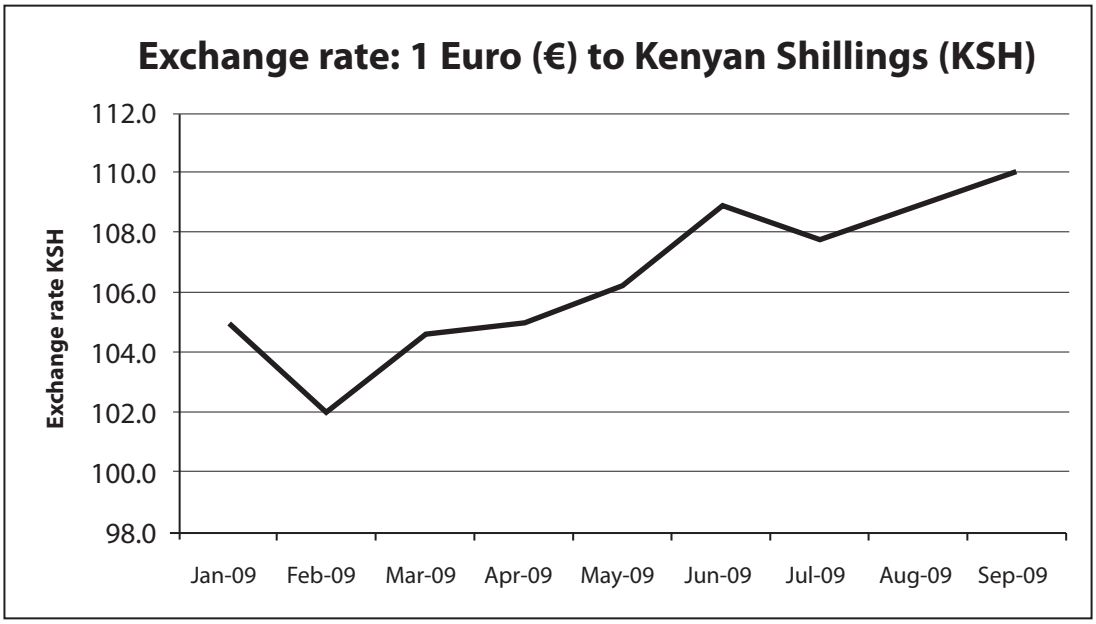
(Total for Question 3 = 30 marks)

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Question 4

Figure 4a shows the exchange rate of the Euro (€) in terms of Kenyan Shillings (KSH).

Figure 4a



(a) (i) In which month was the €/KSH exchange rate at its highest?

(1)

.....s

(ii) Using Figure 4a, what was the highest value of 1 euro in terms of Kenyan Shillings in the month identified in (a)(i)?

(1)

.....

(iii) In which month could 10 euros be exchanged for 1020 Kenyan Shillings?

(1)

.....

(iv) Place a cross in the correct box to show which currency has depreciated from January 2009 to September 2009.

☒ Euro (€)

☒ Kenyan Shilling (KSH)

(1)

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Complete the table below to indicate how each change might affect the value of a currency.

Changes affecting exchange rate	Appreciate	Depreciate
Example: The country demands more imports	☐	☒
(v) Demand for the country's exports falls	☐	☐
(vi) Expectation of a rise in the exchange rate	☐	☐
(vii) Interest rates in the country rise	☐	☐

(3)

(viii) Briefly explain your answer to (a)(vii)

(2)

.....

.....

.....

(b) (i) What is meant by a deficit on the balance of trade?

(3)

.....

.....

.....

.....

.....

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(ii) When the exchange rate of a currency depreciates, the balance of trade improves. Do you agree with this statement? Give reasons for your answer.

(6)

(iii) Apart from depreciation of the currency, identify and briefly explain **two** measures that a government may use to increase exports.

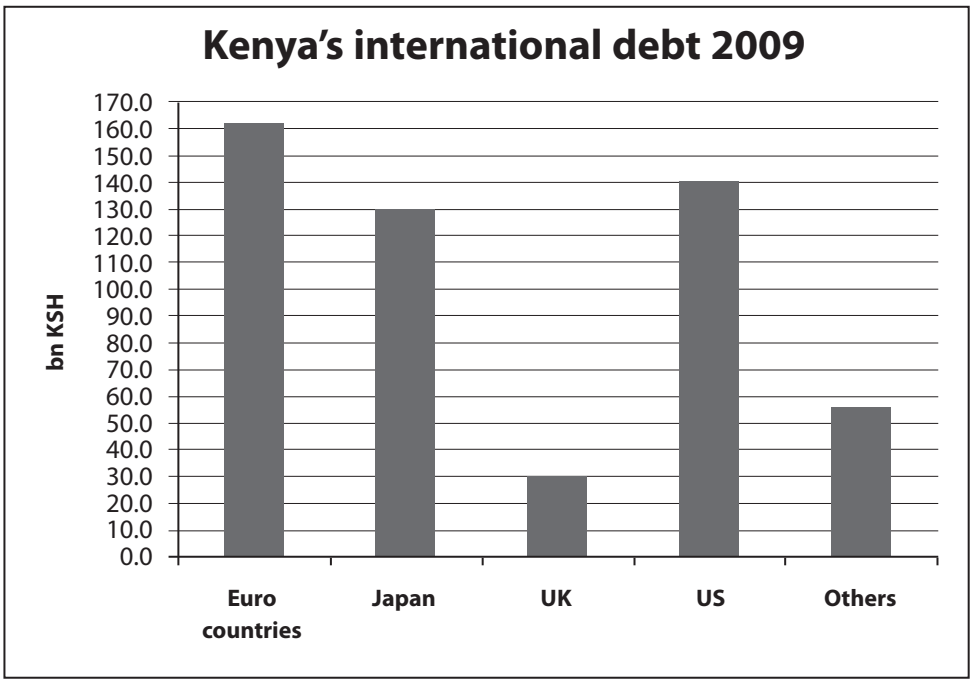
(4)

1. .....

2. .....

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Figure 4b



Study Figure 4b

(c) (i) Which country/group of countries was Kenya's largest creditor in 2009?

(1)

.....

(ii) How much was owed to the UK in 2009?

(1)

.....

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(iii) To what extent is international borrowing by a developing country likely to lead to an increase in the standard of living? Give reasons for your answer.

(6)

(Total for Question 4 = 30 marks)

TOTAL FOR PAPER = 120 MARKS

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