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Pearson Edexcel
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Economics

Paper 1

Monday 1 June 2015 – Afternoon
Time: 2 hours 30 minutes

Paper Reference
4EC0/01R

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.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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Answer ALL questions.

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 ☒.

1 Table 1a shows the demand and supply schedules for boxes of chocolates in a market.

Price per box ($)	Quantity of boxes demanded per month	Quantity of boxes supplied per month	New quantity supplied per month
10	200	240	
9	210	230	
8	220	220	
7	230	210	
6	240	200	

Table 1a

(a) (i) What is the equilibrium price of a box of chocolates?

(1)

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(ii) At a price of $7 per box of chocolates there is

(1)

☒ **A** excess supply

☒ **B** equilibrium

☒ **C** excess demand

☒ **D** no supply

(iii) As a result of an increase in the cost of cocoa, an ingredient in the production of chocolate, supply decreases by 20 boxes at all prices. Insert the new supply figures in the last column of Table 1a.

(1)

(iv) The new equilibrium price for a box of chocolates is

(1)

☒ **A** $10

☒ **B** $9

☒ **C** $8

☒ **D** $7

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(v) Define income elasticity of demand.

(2)

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(vi) In 2013 chocolate shops in Belgium experienced a rise in demand for chocolate due to economic recovery. This suggests that chocolate is

(1)

☒ **A** a normal good

☒ **B** a complementary good

☒ **C** an inferior good

☒ **D** a substitute good

(vii) An inferior good is one for which a rise in income will cause demand for it to

(1)

☒ **A** rise by a small amount

☒ **B** fall

☒ **C** rise by a large amount

☒ **D** stay the same

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(viii) A change in the price of substitute goods is the main factor affecting the demand for chocolate. Do you agree with this statement? Give reasons for your answer.

(6)

Figure 1b shows the labour market for cocoa workers in Ghana.

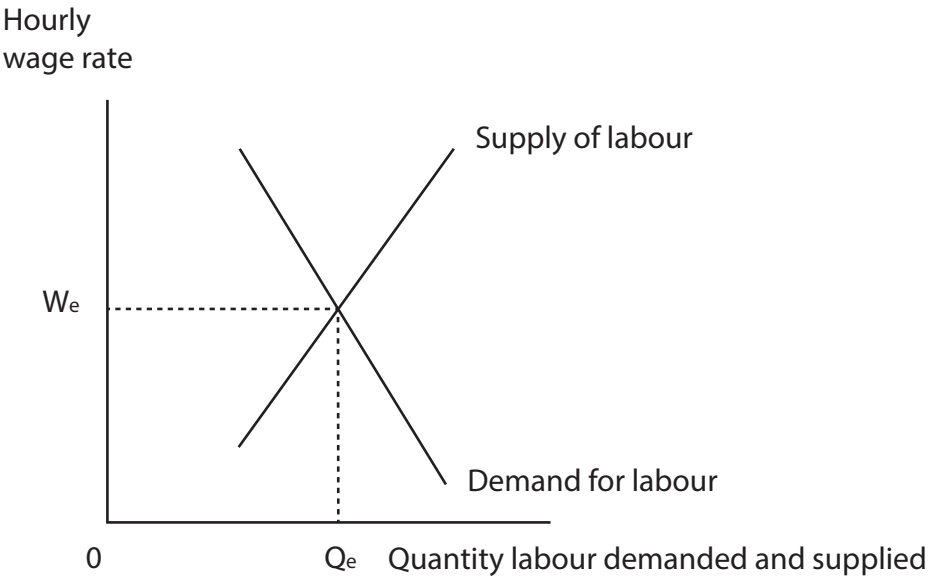


Figure 1b

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(b) (i) Referring to Figure 1b, outline the relationship between the supply of labour and the hourly wage rate.

(2)

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(ii) In 2012 the government of Ghana increased the National Minimum Wage (NMW) by 20%.

On Figure 1c, draw lines on the graph to illustrate the impact of an increase in the National Minimum Wage on the level of unemployment.

(2)

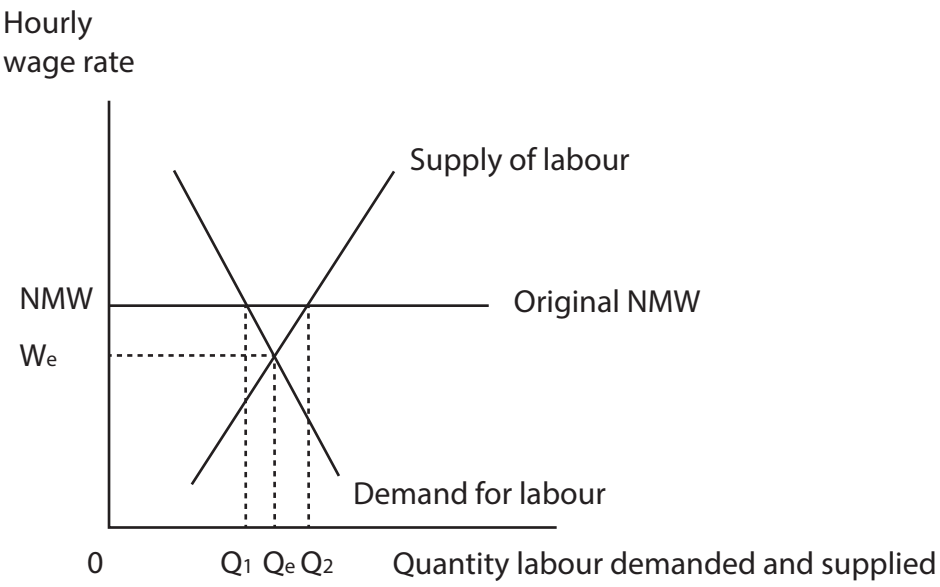


Figure 1c

(iii) Briefly explain your answer to (b)(ii).

(2)

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(iv) Apart from a change in wage rates, explain **two** factors which are likely to increase the supply of workers in Ghana.

(4)

(v) An increase in the National Minimum Wage will always increase living standards for low paid workers. To what extent do you agree with this statement?

(6)

(Total for Question 1 = 30 marks)

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2 Stavros Christodoulou owns and runs a small bakery business. His monthly costs, the total sales of bread per month and the price of each loaf are shown in Table 2a.

Monthly costs	**$**
Ingredients (including flour, water, yeast and salt)	3 000
Wages	6 000
Electricity	3 500
Rent	2 500
Transport (distribution to stores)	2 000
Total monthly costs	

Monthly sales of loaves of bread	20 000
Price per loaf of bread **($)**	1.20
Total monthly revenue	

Table 2a

(a) (i) Stavros's total costs per month are

(1)

- ☒ **A** $3 000
- ☒ **B** $6 000
- ☒ **C** $17 000
- ☒ **D** $37 000

(ii) Stavros's total revenue per month is

(1)

- ☒ **A** $1 200
- ☒ **B** $21 000
- ☒ **C** $21 200
- ☒ **D** $24 000

(iii) Calculate Stavros's total profit per month. Show your workings.

(2)

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(iv) With the aid of an example from Table 2a, define variable costs.

(2)

(v) With the aid of an example from Table 2a, define fixed costs.

(2)

(vi) Bakeries typically remain as small businesses. To what extent do you agree with this statement? Give reasons for your answer.

(6)

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Figure 2b shows the US market share for internal flights. In February 2013 two firms, American Airlines and US Airways, announced plans to merge. The $11 billion merger would create the world's largest airline.

US internal air travel % market share (revenue) 2012

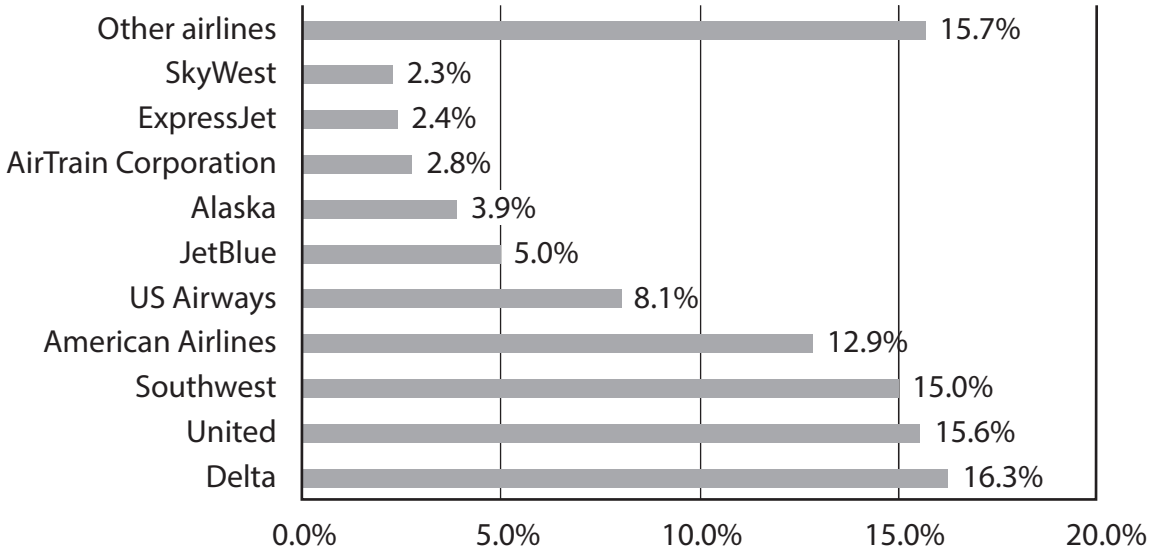


Figure 2b

(b) (i) Briefly explain why air travel is an industry in the tertiary sector of the economy.

(2)

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(ii) Using data from Figure 2b, calculate the combined market share for American Airlines and US Airways after a successful merger.

(1)

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(iii) Briefly explain why the newly merged firm will **not** be a monopoly.

(2)

(iv) The merger of American Airlines and US Airways is an example of

(1)

- ☒ **A** a conglomerate
- ☒ **B** a vertical merger
- ☒ **C** a horizontal merger
- ☒ **D** diversification

(v) The merger is expected to reduce the costs of running the combined airline by $1 billion a year. Identify and briefly explain **one** way that costs can be reduced following the merger.

(3)

(vi) Airlines produce external costs. Identify an example of an external cost produced by air travel.

(1)

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(vii) The US air travel tax on international flights was $34.40 per passenger in 2013. Is taxation the most effective way of reducing external costs produced by air travel? Give reasons for your answer.

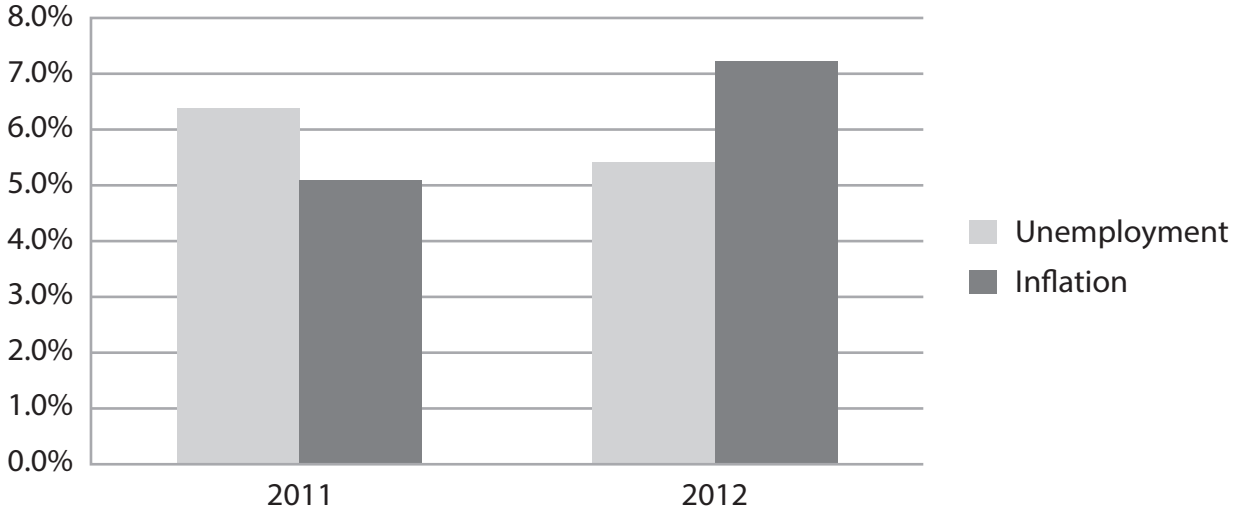
(6)

(Total for Question 2 = 30 marks)

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3 Figure 3a shows unemployment and inflation rates in Trinidad and Tobago, a country in the Caribbean.

Trinidad and Tobago: Unemployment (%) and Inflation (%)



(Source: Central statistical office of Trinidad and Tobago)

Figure 3a

(a) (i) With reference to the data in Figure 3a, identify what happened to the rate of unemployment in Trinidad and Tobago between 2011 and 2012.

(2)

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(ii) Structural unemployment is a major cause of unemployment in Trinidad and Tobago. Briefly explain this type of unemployment.

(2)

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(iii) Briefly explain **one** measure a government could use to reduce structural unemployment.

(2)

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(iv) With reference to the data in Figure 3a, identify what happened to the rate of inflation in Trinidad and Tobago between 2011 and 2012.

(2)

(v) An increase in inflation is worse than an increase in unemployment. Do you agree with this statement? Give reasons for your answer.

(6)

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Table 3b shows the main components of the balance of payments on current account for Trinidad and Tobago in 2012.

Balance of payments Trinidad & Tobago	Net trade $US million
Trade in goods (visibles)	+5 435
Trade in services (invisibles)	–520
Current account balance	

(Source: Central statistical office of Trinidad and Tobago)

Table 3b

(vi) Using the data in Table 3b, calculate the balance of payments on current account for Trinidad and Tobago.

(1)

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(vii) The data in Table 3b shows that Trinidad and Tobago has

(1)

- ☒ **A** a current account surplus
- ☒ **B** a visible account deficit
- ☒ **C** an invisible account surplus
- ☒ **D** a government budget deficit

Oil and gas production accounts for more than 40 per cent of Trinidad and Tobago's Gross Domestic Product and around 55 per cent of government revenue.

(b) (i) Define Gross Domestic Product.

(2)

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(ii) Explain **one** likely reason why the government of Trinidad and Tobago is able to gain so much revenue from oil and gas production.

(2)

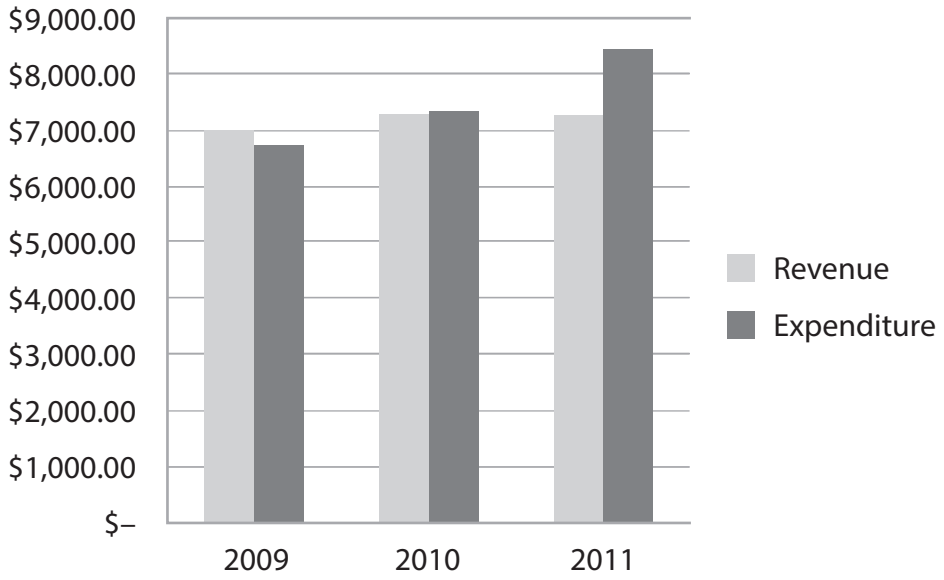
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Trinidad and Tobago: Government expenditure and revenue $US million (2009–2011)



(Source: Central statistical office of Trinidad and Tobago)

Figure 3c

Figure 3c shows the government of Trinidad and Tobago's expenditure and revenue between 2009 and 2011.

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(iii) Using Figure 3c, complete the sentence below from the following list.

(2)

worsened	budget deficit to a budget surplus
improved	budget surplus to a budget deficit
	current account deficit to a current account surplus
	current account surplus to a current account deficit

Between 2009 and 2011 government finances ..... from a

.....

(iv) Briefly explain **one** reason why a government might want to reduce a budget deficit.

(2)

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(v) To reduce a budget deficit it is better to cut government expenditure than to raise taxes. Do you agree with this statement? Give reasons for your answer.

(6)

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(Total for Question 3 = 30 marks)

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4 (a) (i) Globalisation can be defined as the increase in

(1)

- ☒ **A** protectionism of countries to improve their balance of payments
- ☒ **B** exchange rate fluctuations between world currencies
- ☒ **C** interdependence and integration of the world's economies
- ☒ **D** balance of payments deficits of the world's economies

(ii) One major cause of globalisation is the

(1)

- ☒ **A** improvements to transport infrastructure
- ☒ **B** increase in quotas
- ☒ **C** decrease in incomes in developed countries
- ☒ **D** increase in currency speculation

(iii) Apart from your answer to (a) (ii) above, briefly explain **two** further causes of globalisation.

(4)

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(iv) Globalisation will always lead to an improvement in the standard of living for people. Do you agree with this statement? Give reasons for your answer.

(6)

In 2012 the US Government imposed a 30% tariff on the import of solar panels from China.

(v) On Figure 4a, draw lines to illustrate the effects of the tariff on the US market for solar panels.

(2)

US market for solar panels

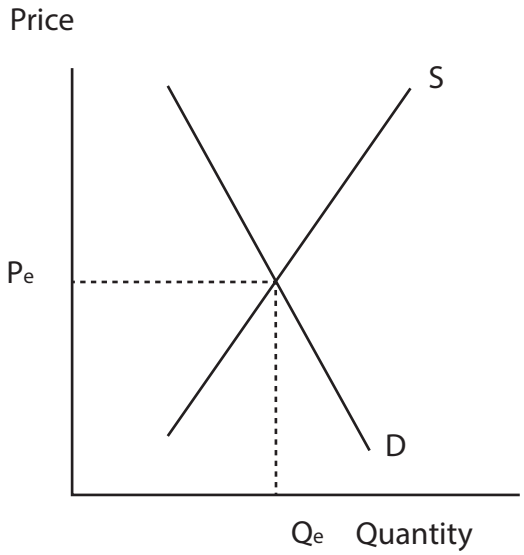


Figure 4a

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(vi) Briefly explain your answer to (a)(v).

(2)

(vii) Briefly explain **one other** type of measure a government could use to reduce imports.

(2)

Figure 4b shows the exchange rate of 1 US Dollar ($) to Trinidad and Tobago Dollars (TTD) between October 2012 and January 2013.

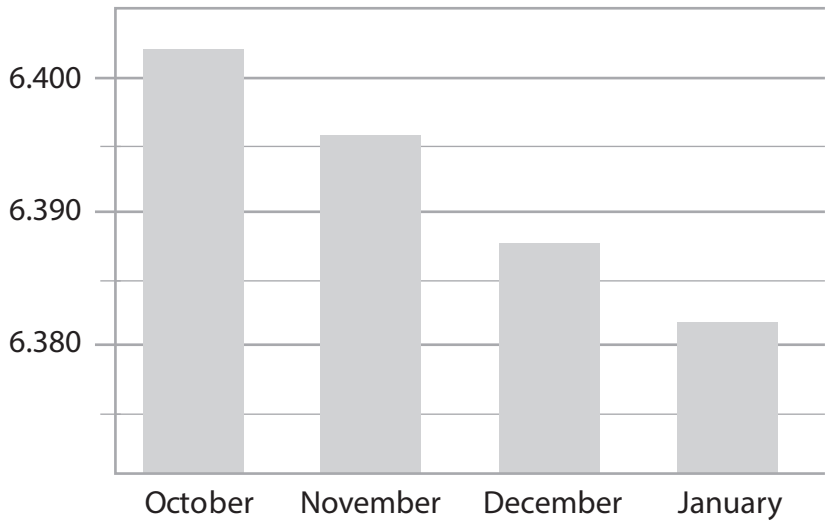


Figure 4b

(Source: http://www.exchange-rates.org/history/TTD/USD/G/M)

(b) (i) In which month could 1 US Dollar be exchanged for more than 6.4 Trinidad and Tobago Dollars?

(1)

(ii) Place a cross in the correct box to show which currency has appreciated from October 2012 to January 2013.

(1)

☒ US Dollar

☒ Trinidad and Tobago Dollar

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(iii) Briefly explain **two** factors which could cause an appreciation in the value of a currency.

(4)

(iv) An appreciation in the value of a country's currency will lead to a worsening in its balance of payments on current account.

Do you agree with this statement? Give reasons for your answer.

(6)

(Total for Question 4 = 30 marks)

TOTAL FOR PAPER = 120 MARKS