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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Monday 11 May 2020

Morning (Time: 1 hour 45 minutes) | Paper Reference **WEC11/01**

Economics

International Advanced Subsidiary
Unit 1: Markets in action

You must have:
Source Booklet (enclosed)

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 in Sections A, B and C.
- Answer **ONE** question in Section D.
- 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*.
- 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.

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SECTION A

Answer ALL questions in this section.

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 Which **one** of the following is a role of the government in a mixed economy?

- ☐ **A** To provide public goods such as street lighting and flood defences
- ☐ **B** To subsidise goods that cause external costs
- ☐ **C** To tax goods that cause external benefits
- ☐ **D** To introduce regulations that cause excessive administration costs

(Total for Question 1 = 1 mark)

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2 Which **one** of the following is an example of market failure?

- ☐ **A** Excessive administration costs associated with government regulation
- ☐ **B** Diminishing marginal utility occurring as consumption increases
- ☐ **C** Rising stock market prices causing a market bubble
- ☐ **D** Unintended consequences after the introduction of a tax

(Total for Question 2 = 1 mark)

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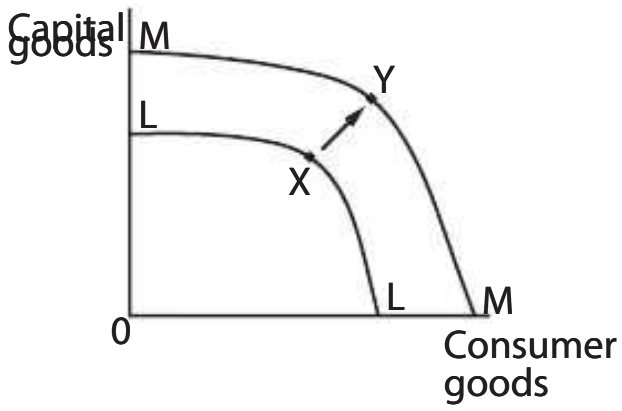
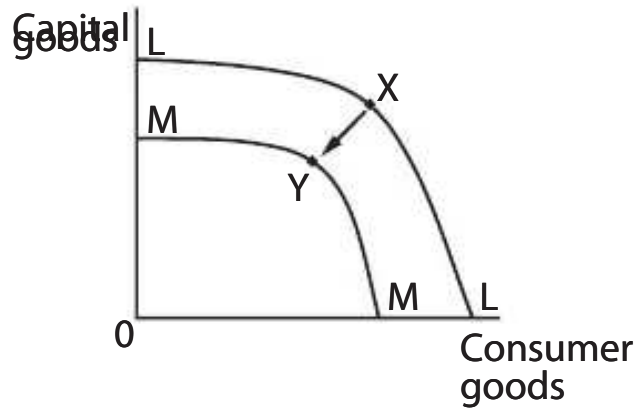
3 In April 2015 an earthquake in Nepal killed 8 000 people. Assume the economy was operating efficiently at full employment.

Which **one** of the following diagrams best illustrates the impact of the earthquake on Nepal's economy assuming it continued to operate at full employment?

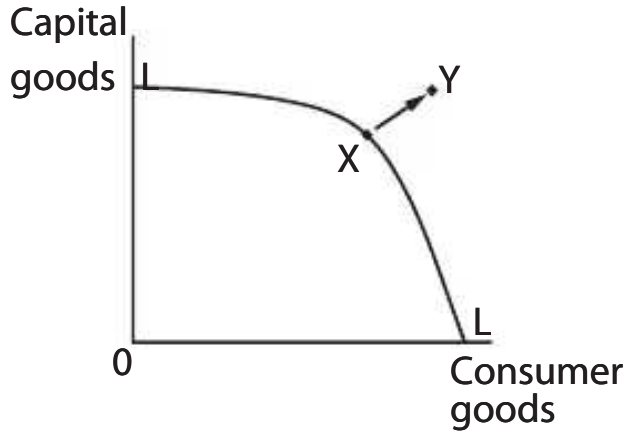
☐ **A**



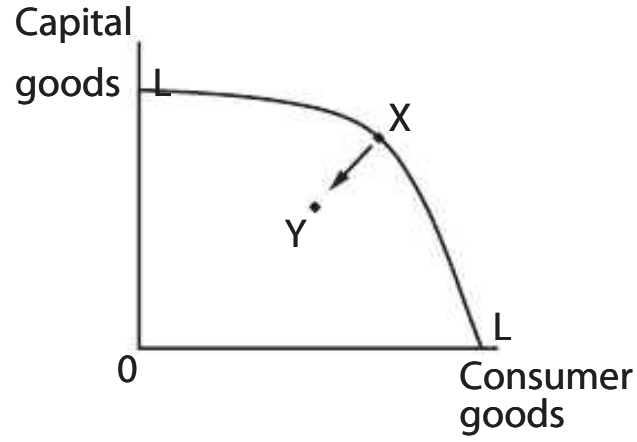
☐ **B**



☐ **C**



☐ **D**



(Total for Question 3 = 1 mark)

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4 In the UK mobile phone service providers have been accused of offering new consumers much cheaper deals than those offered to existing consumers. Despite this difference, many existing consumers do not change their mobile phone service provider.

Which **one** of the following explains why consumers do not change mobile phone service provider?

- ☐ **A** Consumers are good at computation
- ☐ **B** Consumers aim to maximise utility
- ☐ **C** Consumers exhibit habitual behaviour
- ☐ **D** Consumers feel valued by alternative providers

(Total for Question 4 = 1 mark)

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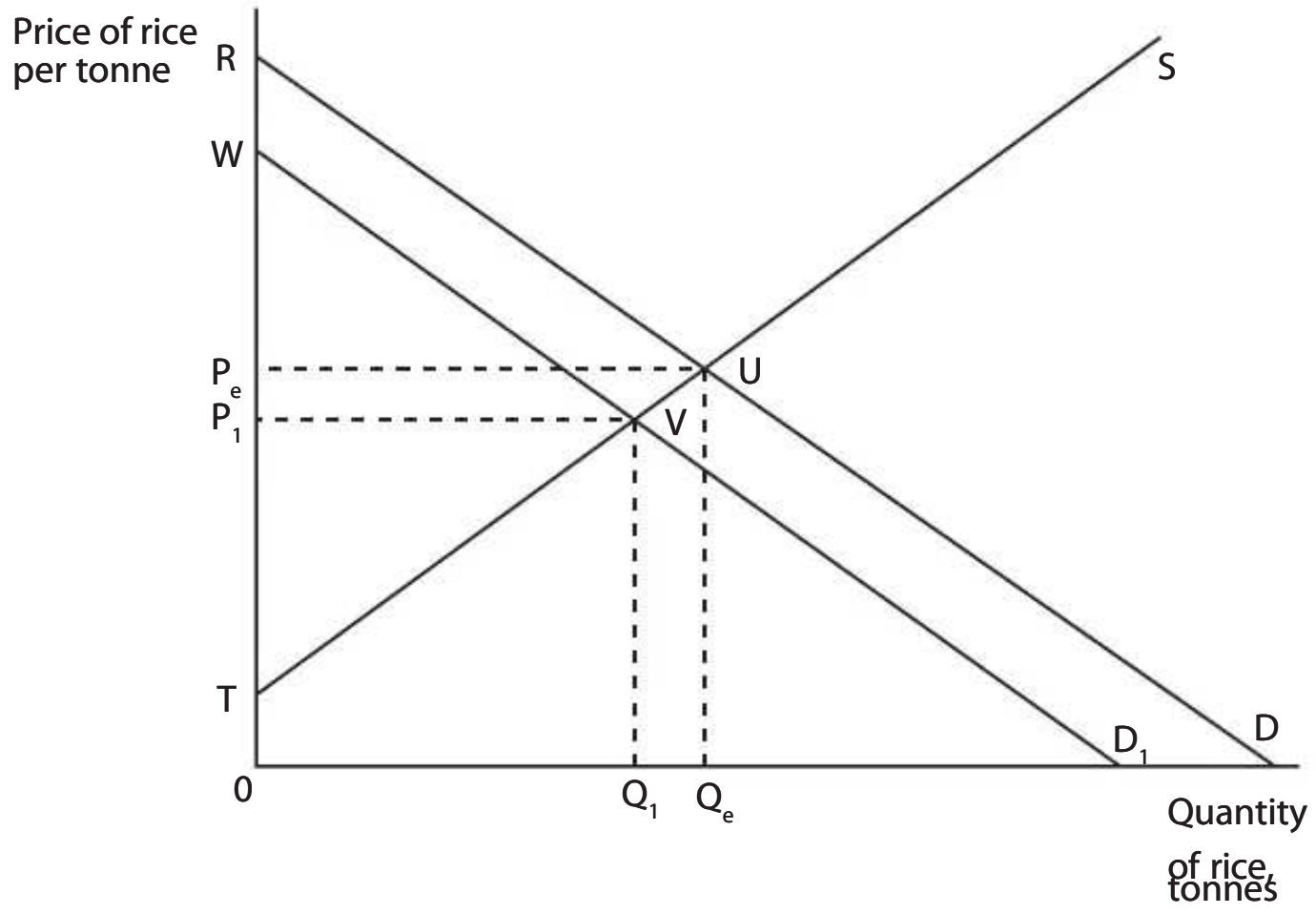
5 In 2019 countries in Africa reduced the quantity of rice they imported. The diagram shows the impact of this on the world market for rice.

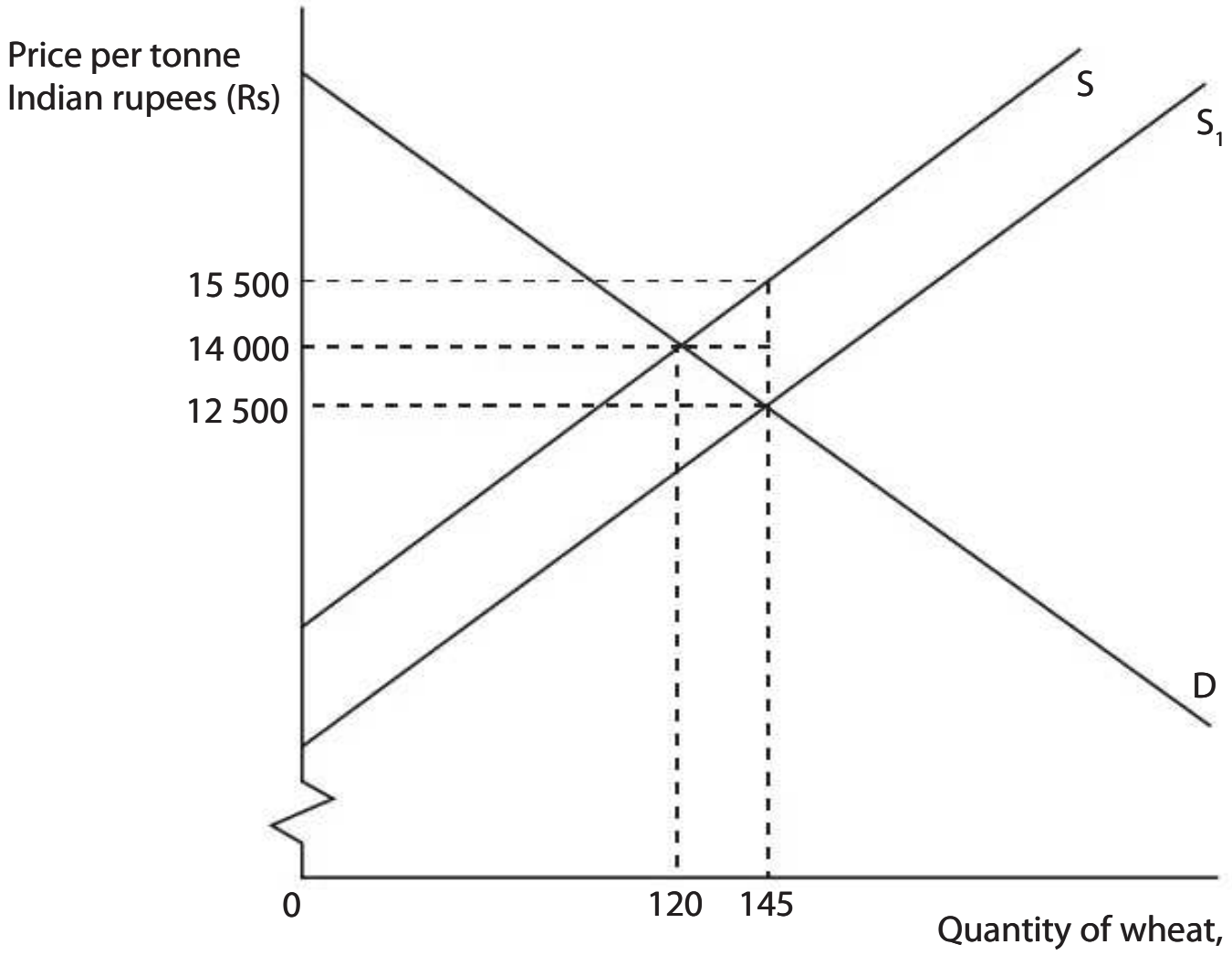


Which **one** of the following can be deduced from the diagram?

- ☐ **A** Government spending rises by VUQ_eQ_1
- ☐ **B** Total revenue of rice producers falls by VUQ_eQ_1
- ☐ **C** Consumer surplus rises by P_eUVP_1
- ☐ **D** Producer surplus falls by P_eUVP_1

(Total for Question 5 = 1 mark)

6 The diagram shows the market for wheat in India. It illustrates the introduction of a subsidy for the production of wheat by the Indian Government.



Which one of the following is the producer incidence of the subsidy?

- ☐ **A** Rs 217 500 000
- ☐ **B** Rs 435 000 000
- ☐ **C** Rs 1 812 500 000
- ☐ **D** Rs 2 247 500 000

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

Answer ALL questions in this section in the space provided.

7 Romania plans to impose a maximum price in the market for gas below the current equilibrium price.

Draw a diagram to illustrate the impact of the introduction of the maximum price on the market for gas in Romania.

(Total for Question 7 = 4 marks)

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8 **Statement 1:** Producers of renewable energy received subsidies of $140 billion globally in 2016. Producers of non-renewable energy received subsidies of $260 billion.

Statement 2: Subsidies for renewable energy should be increased and subsidies for non-renewable energy should be decreased.

With reference to Statement 1 and Statement 2, explain the difference between

positive statements and normative statements.

(Total for Question 8 = 4 marks)

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9 The US state of South Carolina has proposed a regulation to stop the sale of energy drinks to children under the age of 18.

Explain **one** likely impact of this proposed regulation to stop the sale of energy drinks to children under the age of 18 in South Carolina.

(Total for Question 9 = 4 marks)

10 The table shows the average annual income for workers in Singapore and the quantity of new car sales in Singapore in 2016 and 2017.

	2016	**2017**
Average annual income	S$65 796	S$67 032
Quantity of new car sales	109 091	112 114

Using the data in the table, *ceteris paribus*, calculate the income elasticity of demand for new cars in Singapore. Show your workings.

(Total for Question 10 = 4 marks)

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11 The cross elasticity of demand for Pepsi cola with respect to Coca Cola is estimated to be +1.24.

Explain the likely impact of a 10% increase in the price of Coca Cola on the demand for Pepsi cola.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figures 1 and 2 and Extracts A and B in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'equilibrium' (Extract A, line 2).

(2)

(b) With reference to Extract A, explain the impact of the availability of substitutes on the price elasticity of demand for palm oil.

(4)

(c) With reference to the information provided, analyse **two** reasons why the price of palm oil decreased in 2018.

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Figure 2 and Extract A, examine the likely price elasticity of supply for palm oil.

(8)

(e) With reference to Extract B, discuss the externalities associated with the production of palm oil.

Illustrate your answer with an appropriate diagram.

(14)

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12 (a) Define the term 'equilibrium' (Extract A, line 2).

(2)

(b) With reference to Extract A, explain the impact of the availability of substitutes on the price elasticity of demand for palm oil.

(4)

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(c) With reference to the information provided, analyse **two** reasons why the price of palm oil decreased in 2018.

Illustrate your answer with a supply and demand diagram.

(6)

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(d) With reference to Figure 2 and Extract A, examine the likely price elasticity of supply for palm oil.

(8)

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(e) With reference to Extract B, discuss the externalities associated with the production of palm oil.

Illustrate your answer with an appropriate diagram.

(14)

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D BEGINS ON THE NEXT PAGE

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In the Netherlands 68% of the price consumers pay for a litre of petrol is indirect tax. In neighbouring Germany indirect tax represents just 59%.

Evaluate the impact of these indirect taxes charged on petrol.

(Total for Question 13 = 20 marks)

OR

14 In the UK, in 2018, 10 million consumers travelling abroad did not take out travel insurance. This is despite 30% of consumers with travel insurance having to make a claim and the average medical bill costing £5 620.

Evaluate reasons for the underconsumption of travel insurance.

(Total for Question 14 = 20 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 13** ☐ **Question 14** ☐

Write your answer here:

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TOTAL FOR SECTION D = 20 MARKS

TOTAL FOR PAPER = 80 MARKS

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Time: 1 hour 45 minutes | Paper Reference **WEC11/01**

Economics
International Advanced Subsidiary
Unit 1: Markets in action

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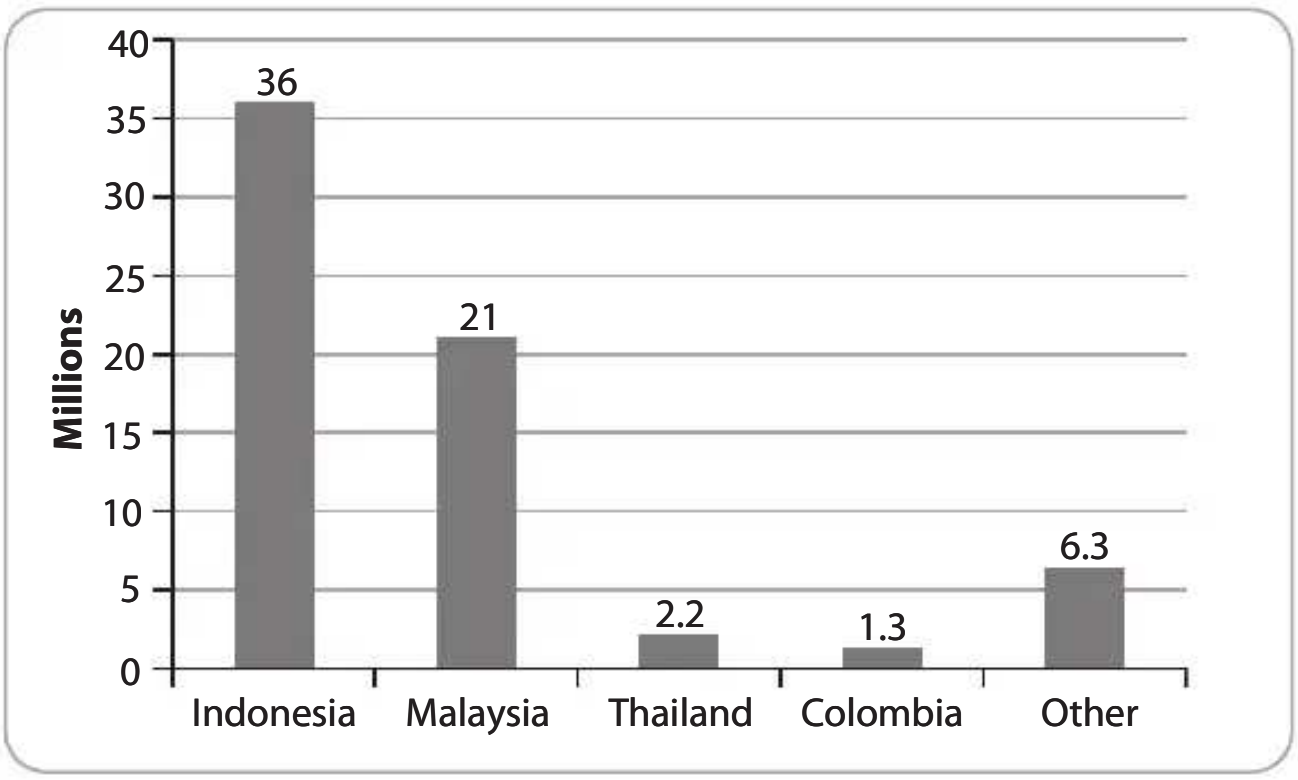
Sources for use with Section C.

The global market for palm oil

Figure 1 Price changes of selected vegetable oils, 2018

Type of vegetable oil	% price change
Palm	–25.94
Rapeseed	–12.71
Soybean	–17.75
Sunflower	–12.81

Figure 2 Global palm oil production in 2017 (million tonnes)



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Extract A Palm oil price falls

The equilibrium price of palm oil decreased in 2018. The price of competing vegetable oils, including rapeseed, soybean and sunflower also fell in 2018. Palm oil is used in the production of biodiesel, a substitute for crude oil. Lower crude oil prices during 2018 caused a fall in the demand for biodiesel.

More palm oil was produced in 2018 than was consumed. This abundant supply led to a stockpile of three million tonnes. When first planted, palm trees can take up to 30 months to produce fruit. The fruit can then be harvested twice a year and converted into palm oil.

Extract B Palm oil production

Palm oil production more than tripled between 1998 and 2018. It is now used in many goods including processed foods, cosmetics, detergents, chocolate and biodiesel.

Palm oil requires one-tenth of the land, one-seventh of the fertiliser and only one-sixth of the energy to produce the same amount of oil as soybean. In Indonesia and Malaysia more than 4.7 million workers are employed directly in the palm oil industry. A further 11 million workers are employed indirectly.

The rapid and poorly managed expansion of production has caused large-scale deforestation. The clearing and burning of tropical rainforests has also caused significant greenhouse gas emissions.

Palm oil production in Indonesia and Malaysia has led to habitat and biodiversity loss. Endangered animals have been negatively affected. For example, between 2001 and 2017 the population of orangutans fell by 100 000 in these countries. Orangutans spend 95% of their time in trees and Indonesian rainforests have been disappearing rapidly. In western Indonesia 69% of elephant habitats have been lost and there are only 100 rhinos left in the wild.

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Acknowledgements

Figure 1 based on data taken from https://www.indexmundi.com/commodities/

Figure 2 adapted from http://www.worldagriculturalproduction.com/crops/palmoil.aspx

Extract A adapted from https://www.thestar.com.my/business/business-news/2018/12/08/palm-dips-under-pressure-from-weaker-related-edible-oils-crude-oil/#cbGmRlDAGsSjRGsa.99 and

Extract B adapted from https://engagethechain.org/palm-oil and https://www.theguardian.com/commentisfree/2018/may/10/palm-oil-orangutans-multinationals-promises-deforestation and https://epthinktank.eu/2018/02/19/palm-oil-economic-and-environmental-impacts/