www.dynamicpapers.com

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

Wednesday 15 January 2014 – 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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your 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* ▶

P44532A

©2014 Pearson Education Ltd.

5/3/6/1/e2

P 4 4 5 3 2 A 0 1 4 0

PEARSON

www.dynamicpapers.com

**BLANK PAGE**

www.dynamicpapers.com

**Section A: Answer all the 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** One of the roles of the state in a mixed economy is to

**(1)**

**A** maintain price flexibility

**B** allocate goods and services using the price mechanism

**C** ration luxury goods

**D** provide public goods

Answer ☐

Explanation

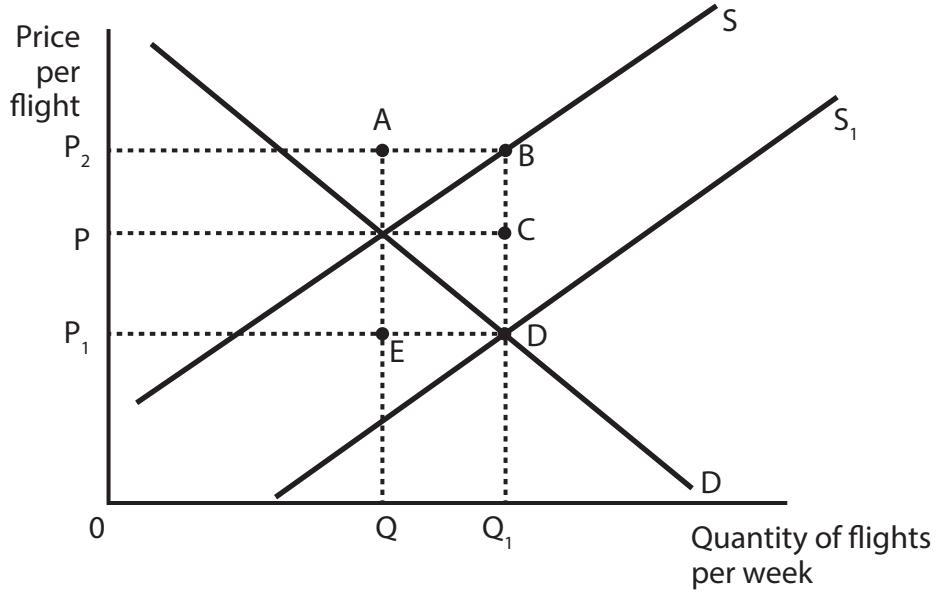
**(3)**

**(Total for Question 1 = 4 marks)**

www.dynamicpapers.com

**2** In May 2013, the Prime Minister of St. Vincent and the Grenadines criticised the fuel subsidy provided to Caribbean Airlines Limited by the Government of Trinidad and Tobago.

In the diagram below, which area represents the cost of this subsidy to the Government of Trinidad and Tobago?




**(1)**

**A** $P_2BDP_1$

**B** $P_2AEP_1$

**C** $P_2BCP$

**D** $PCDP_1$

Answer

www.dynamicpapers.com

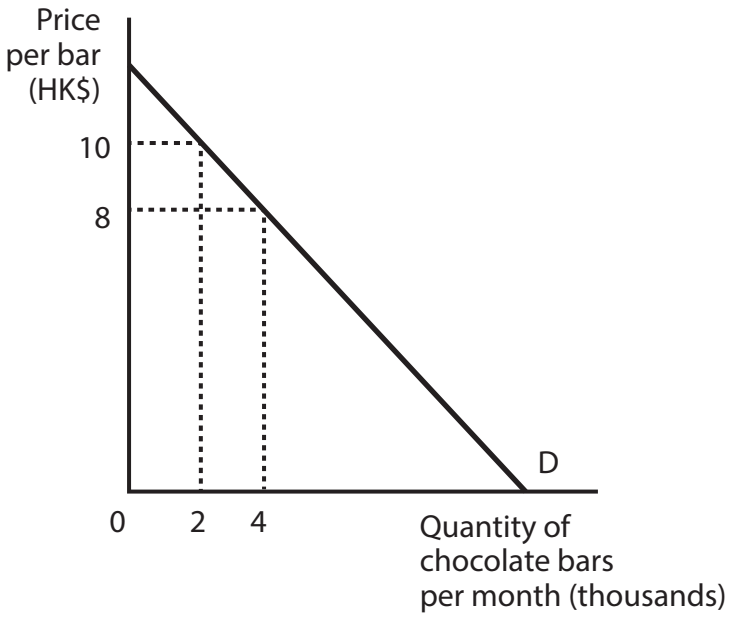
Explanation

**(3)**

**(Total for Question 2 = 4 marks)**

www.dynamicpapers.com

**3** The diagram below illustrates the demand curve faced by a chocolate bar producer in Hong Kong.




If the producer cuts the price of its chocolate bars from HK$10 to HK$8 then

**(1)**

**A** its revenue will rise, because demand is price inelastic

**B** its revenue will fall, because demand is price elastic

**C** its revenue will rise, because demand is price elastic

**D** its revenue will fall, because demand is price inelastic

Answer ☐

www.dynamicpapers.com

Explanation

**(3)**

**(Total for Question 3 = 4 marks)**

www.dynamicpapers.com

**4** The table below shows the estimated cross price elasticities of demand of various food groups with respect to fruit in South Africa.

| Food group | Cross price elasticity of demand with respect to fruit |
|---|---|
| Meat and fish | -0.84 |
| Grains | 0.52 |
| Dairy products | -0.31 |
| Vegetables | 0.00 |

(Source: 'The analysis of consumer demand for food in South Africa using an almost ideal demand system: some preliminary results', Frank W. Agbola, Pushkar Maitra and Keith McLaren, 2002, http://ageconsearch.umn.edu/bitstream/125047/2/Agbola2.pdf)

From the table it can be deduced that in South Africa

**(1)**

**A** fruit and grains are complements

**B** meat and fish are inferior goods

**C** fruit and dairy products are complements

**D** demand for vegetables is perfectly price inelastic

Answer ☐

Explanation

**(3)**

**(Total for Question 4 = 4 marks)**

www.dynamicpapers.com

**5** The table below shows the annual percentage change in real wages in four developed economies.

**Real wage growth (%) 2011**

| | **2011** |
|---|---|
| Australia | 0.7 |
| Japan | 1.1 |
| Spain | -1.9 |
| USA | -0.2 |

(Source: OECD)

Which one of the following is most likely to have been a **cause** of the change in real wages as shown in the table? You may use a supply and demand diagram in your answer.

**(1)**

**A** There was net outward labour migration from the USA

**B** The retirement age was raised in Spain

**C** The opportunity cost of not working fell in Australia

**D** The demand for goods and services fell in Japan

Answer ☐

Explanation

**(3)**

**(Total for Question 5 = 4 marks)**

www.dynamicpapers.com

**BLANK PAGE**

www.dynamicpapers.com

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

**(1)**

**A** The price of a scarce good rising in order to ration it

**B** Occupational immobility of labour resulting in long-term unemployment

**C** Consumers experiencing diminishing marginal utility from the consumption of a good

**D** A rise in unemployment resulting from an increase in the national minimum wage

Answer ☐

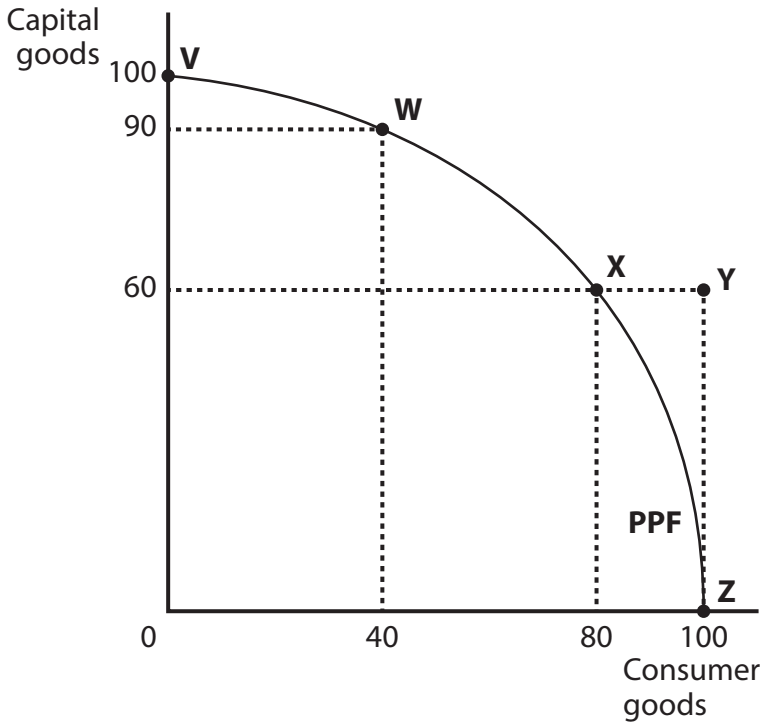
Explanation

**(3)**

**(Total for Question 6 = 4 marks)**

www.dynamicpapers.com

**7** The diagram below shows an economy's production possibility frontier.




Which one of the following movements has an opportunity cost of 60 units of capital goods?

**(1)**

**A** V to W

**B** X to Z

**C** Y to V

**D** Z to W

Answer

www.dynamicpapers.com

Explanation

**(3)**

**(Total for Question 7 = 4 marks)**

www.dynamicpapers.com

**8** In January 2013 the Government of Cyprus imposed a maximum price of €1.41 for a litre of pasteurised milk, after the market price of milk had increased significantly to €1.50 per litre.

The most likely effect of this maximum price is that

**(1)**

**A** there will be a shortage of milk

**B** new dairy farmers will join the market

**C** the quantity of milk demanded will fall

**D** the purchase of milk will have a higher opportunity cost

Answer ☐

Explanation

**(3)**

**(Total for Question 8 = 4 marks)**

**TOTAL FOR SECTION A = 32 MARKS**

www.dynamicpapers.com

**Section B: Answer either Question 9 or Question 10.**

**If you answer Question 9 put a cross in this box ☒ .**
**Question 10 starts on page 27.**

**You should spend 55 minutes on this section.**

**9** The price of pork

**Figure 1 Wholesale pork prices in China (RMB* per kg)**




* RMB (renminbi) is the official currency of mainland China

**Extract 1 Pork prices are falling in China, the world's largest pork market**

Chinese food inflation was 2.7% year-on-year in March 2013, down from 6% year-on-year the previous month, partly caused by a 5.5% decline in pork prices. Chinese consumers traditionally spend a high proportion of their income on pork.

Pork prices have been falling since the start of 2013. Bank of America's Ting Lu expects pork prices to stay weak until mid-2013 for three key reasons:

- the stock of breeding sows (female pigs) has been at a historically high level since September 2012;
- corn prices have declined and corn is an important feed grain for pigs;
- there have been no recent swine (pig) flu outbreaks in China.

However, pork prices are predicted to rise when demand starts climbing in August 2013. Fortunately, in recent years the Chinese government has put more emphasis on stabilising pork supply. It has also started buying frozen pork at prices slightly above the market price for its national pork reserve (which operates like a buffer stock scheme) to help support prices and prevent further damage to farmers' incomes.

The oversupply of pigs is expected to continue for a period of time, unless there is a swine flu epidemic among the pig population.

(Source: adapted from 'Pork prices are falling in the world's largest pork market', by Mamta Badkar, Business Insider, 8 April 2013, http://www.businessinsider.com/pork-prices-are-falling-in-china-2013-4)

www.dynamicpapers.com

**Extract 2 Pork consumption and production**

More people are consuming beef, pork, and chicken than ever before. "Meat consumption will continue to increase, especially in rural China," said Qingbin Wang, an economics professor at the University of Vermont. "When people have more income, they will eat more meat, especially pork."

To meet this increased demand, the United Nations Food and Agriculture Organisation (FAO) predicts that nearly twice as much meat will be produced in 2050 than in 2008, reaching a projected total of more than 465 million tons.

The effects of the meat boom on the world's climate could be significant. Already, livestock are responsible for 18% of carbon dioxide emissions and 37% of global emissions of methane, a greenhouse gas 20 times more damaging than carbon dioxide.

Meat production also requires ample water resources. An average adult pig requires 50 litres per day on an industrial farm. Most of this water returning to the environment is polluted.

(Source: adapted from 'China low on a strategic resource: pork', by Ben Block, The Worldwatch Institute, http://www.worldwatch.org/node/6019)

(a) With reference to Figure 1 and Extract 1, explain why there was 'a 5.5% decline in pork prices' in March 2013. Use a supply and demand diagram in your answer.

**(6)**

(b) Discuss the likely impact on restaurants in China of a swine flu epidemic reducing the stock of pigs in Chinese farms.

**(10)**

(c) Assess the likely effectiveness of China's 'national pork reserve' (Extract 1, line 13) in stabilising pork prices.

**(14)**

(d) With reference to Extract 2, explain whether pork is a normal or an inferior good.

**(4)**

(e) Using the concept of external costs, examine the possible economic effects of meat production 'reaching a projected total of more than 465 million tons' by 2050 (Extract 2, line 7). Use an appropriate diagram in your answer.

**(14)**

www.dynamicpapers.com

(a) With reference to Figure 1 and Extract 1, explain why there was 'a 5.5% decline in pork prices' in March 2013. Use a supply and demand diagram in your answer.

**(6)**

www.dynamicpapers.com

(b) Discuss the likely impact on restaurants in China of a swine flu epidemic reducing the stock of pigs in Chinese farms.

**(10)**

www.dynamicpapers.com

www.dynamicpapers.com

(c) Assess the likely effectiveness of China's 'national pork reserve' (Extract 1, line 13) in stabilising pork prices.

**(14)**

www.dynamicpapers.com

www.dynamicpapers.com

www.dynamicpapers.com

(d) With reference to Extract 2, explain whether pork is a normal or an inferior good.

**(4)**

www.dynamicpapers.com

(e) Using the concept of external costs, examine the possible economic effects of meat production 'reaching a projected total of more than 465 million tons' by 2050 (Extract 2, line 7). Use an appropriate diagram in your answer.

**(14)**

www.dynamicpapers.com

www.dynamicpapers.com

**(Total for Question 9 = 48 marks)**

www.dynamicpapers.com

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

**10** The problem of plastic bags

**Extract 1 What can we do about plastic bags?**

Few people could argue that plastic bags aren't convenient – they are light yet strong, and have many uses. They are often given away to customers for free. However, environmental campaigners argue that plastic bags cause more problems than they solve. The production of them requires petroleum and often natural gas (both non-renewable resources). Furthermore, plastic bags often end up as litter, can be harmful to animals, have devastating impacts when washed into our seas, and put pressure on landfill sites.

The two main strategies used by countries to try to tackle these environmental problems have been regulations and taxes on the use of plastic bags.

In 2008, China banned ultra-thin plastic bags and barred supermarkets and open-air markets from handing out any kind of free plastic bag. Tom Wang, Communications Director for the East Asia branch of the environmental pressure group Greenpeace, said that this policy did lead to more people taking their own bags to stores, especially in big cities. However, the inspections made were too weak to enforce the policies completely.

In Ireland, the introduction of a tax of €0.15 per bag in March 2002, resulted in the number of plastic bags used annually falling by over 90%, with a similar reduction in plastic bag litter. By 2007 the government had raised €75m from the tax, which was put into an Environment Fund and used to reduce waste, and research new ways of recycling. In 2007 the tax was raised from €0.15 to €0.22 per bag, with the result that total bag consumption fell from 120 million in 2006, to 100 million in 2007.

However, these regulations may have unintended consequences. In Ireland retailers noticed substantial increases in the sale of plastic bin bags and nappy (diaper) bags after the levy was introduced, as consumers were no longer able to reuse free plastic bags. Also it is not clear if alternative types of grocery bags, whether cotton or paper have a less negative environmental impact (see Figure 1). In 2010, a study by the University of Arizona claimed reusable grocery bags could be a "breeding ground for dangerous food-borne bacteria and pose a serious risk to public health" - although it should be noted that this work was funded by the American Chemical Council, which includes several plastics manufacturers.

www.dynamicpapers.com

**Figure 1 The number of times a different type of bag must be reused for it to cause less global warming than a plastic bag**

| Type of bag | If the plastic bag is not reused | If the plastic bag is reused once as a bin liner | If the plastic bag is reused three times |
|---|---|---|---|
| Paper bag | 3 | 4 | 9 |
| Cotton bag | 131 | 173 | 393 |

(Source: 'Life cycle assessment of supermarket carrier bags: a review of the bags available in 2006', UK Environment Agency)

(a) Explain what is meant by 'non-renewable resources' (Extract 1, line 5).

**(4)**

(b) With reference to the first paragraph of Extract 1, explain why a **rational** consumer might use a plastic bag. Refer to the concept of opportunity cost in your answer.

**(6)**

(c) With reference to Extract 1 and your own knowledge, discuss the likely economic effects of a tax being imposed on plastic bags. Refer to the concept of price elasticity of demand in your answer.

**(14)**

(d) With reference to the information provided, to what extent might asymmetric information exist in the market for all grocery bags?

**(10)**

(e) Evaluate the extent to which government failure is likely to result from a ban on plastic bags.

**(14)**

www.dynamicpapers.com

(a) Explain what is meant by 'non-renewable resources' (Extract 1, line 5).

**(4)**

www.dynamicpapers.com

(b) With reference to the first paragraph of Extract 1, explain why a **rational** consumer might use a plastic bag. Refer to the concept of opportunity cost in your answer.

**(6)**

www.dynamicpapers.com

(c) With reference to Extract 1 and your own knowledge, discuss the likely economic effects of a tax being imposed on plastic bags. Refer to the concept of price elasticity of demand in your answer.

**(14)**

www.dynamicpapers.com

www.dynamicpapers.com

www.dynamicpapers.com

(d) With reference to the information provided, to what extent might asymmetric information exist in the market for all grocery bags?

**(10)**

www.dynamicpapers.com

www.dynamicpapers.com

(e) Evaluate the extent to which government failure is likely to result from a ban on plastic bags.

**(14)**

www.dynamicpapers.com

www.dynamicpapers.com

**(Total for Question 10 = 48 marks)**

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

www.dynamicpapers.com

**BLANK PAGE**

www.dynamicpapers.com

**BLANK PAGE**

Every effort has been made to contact copyright holders to obtain their permission for the use of copyright material. Edexcel, a product of Pearson Education Ltd. will, if notified, be happy to rectify any errors or omissions and include any such rectifications in future editions.