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Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 1: Markets in Action

Wednesday 14 January 2015 – 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** 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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1/1/2/2

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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 **One** reason why most countries are mixed economies is that

(1)

A governments have perfect market information

B the free market economy may lead to market failure

C the free market economy always allocates resources efficiently

D mixed economies never experience market failure

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 Which **one** of the following is most likely to result in a decrease in producer surplus in the market for breakfast cereals?

(1)

A An advertising campaign that highlights the health benefits of breakfast cereals

B A government subsidy to support the breakfast cereal market

C A decrease in indirect taxes on breakfast cereals

D Consumers switching from breakfast cereals to fruit and yoghurt

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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3 According to the Association of British Travel Agents (ABTA), 36% of UK holidaymakers take skiing holidays without travel insurance despite the average travel insurance claim in Europe being £1 610. A possible explanation for this under-consumption of travel insurance is that

(Source: adapted from http://abta.com/news-and-views/press-zone/skiers-and-snowboarders-travelling-without-proper-travel-insurance)

(1)

A holidaymakers have imperfect information about the risks of skiing

B the indirect taxes imposed on travel insurance have decreased

C there is no opportunity cost to paying for travel insurance

D symmetric information is available about the average insurance claim

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 The Regional Public Goods Initiative (RPGI) supports countries in Latin America and the Caribbean and has provided US$73 million finance for the provision of public goods across the region.

Which **one** of the following statements about public goods is true?

(Source: adapted from http://www.iadb.org/en/topics/regional-integration/what-is-the-regional-public-goods-program,2803.html)

(1)

A The private sector is able to exclude people from consuming public goods

B They may be under provided by the private sector

C There is rivalry in the consumption of public goods

D They are only available to some consumers

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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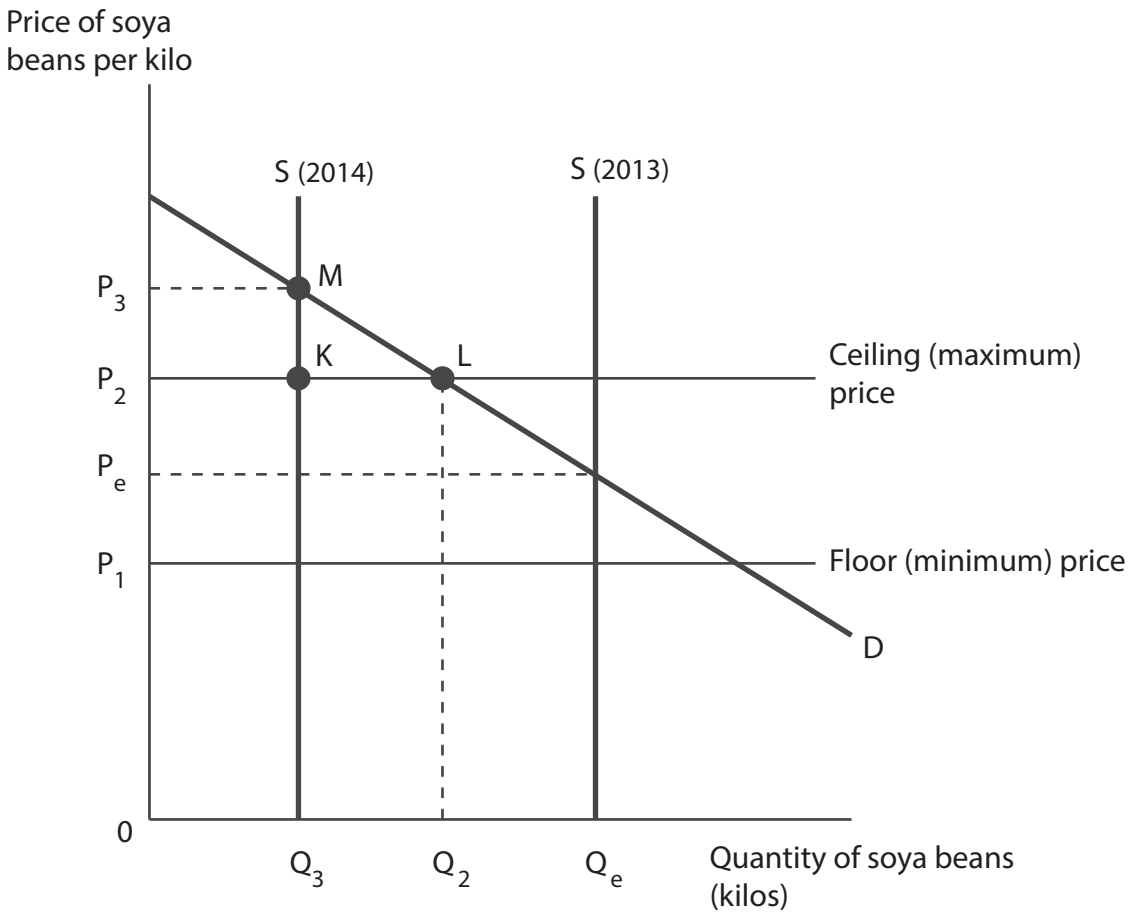
5 The National Food Buffer Stock Company (NAFCO) in Ghana operates a buffer stock scheme in the market for soya beans. The diagram shows the market for soya beans where the government will intervene to maintain the price between P_1 and P_2. The supply curves show supply in the years 2013 and 2014.



In 2013, the harvest resulted in price, P_e and quantity, Q_e. The 2014 harvest led to

(1)

A the government buying soya beans and adding to its stockpile

B the price decreasing to P_1 due to a good harvest

C the government selling soya beans from its stockpile

D an excess supply of soya beans

(a) Answer ☐

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(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 The table below shows estimates of income elasticity of demand and price elasticity of demand for cigarettes in Argentina.

Elasticity	Cigarettes
Income elasticity of demand	0.43
Price elasticity of demand	–0.31

(Source: http://tobaccocontrol.bmj.com/content/early/2013/06/11/tobaccocontrol-2012-050711.abstract)

From the data it can be deduced that in Argentina

(1)

A an increase in consumer income will lead to a more than proportionate increase in demand for cigarettes

B a decrease in consumer incomes will lead to a less than proportionate rise in demand for cigarettes

C an increase in the price of cigarettes will lead to a more than proportionate rise in demand for cigarettes

D a decrease in the price of cigarettes will lead to a less than proportionate rise in demand for cigarettes

(a) Answer ☐

(b) Explanation

(3)

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(Total for Question 6 = 4 marks)

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7 In the USA, in September 2013, 11.3 million people were unemployed but at the same time 3.9 million job vacancies were available.

(Source: http://www.njfac.org/jobnews.html)

This may be explained by which **one** of the following?

(1)

A There is a mismatch between the skills the unemployed have and those required by employers

B The US Government offers subsidies to help people move from one region to another

C The US Government providing training programmes to reduce immobility

D The skills of the unemployed may be transferred easily to the jobs that are available

(a) Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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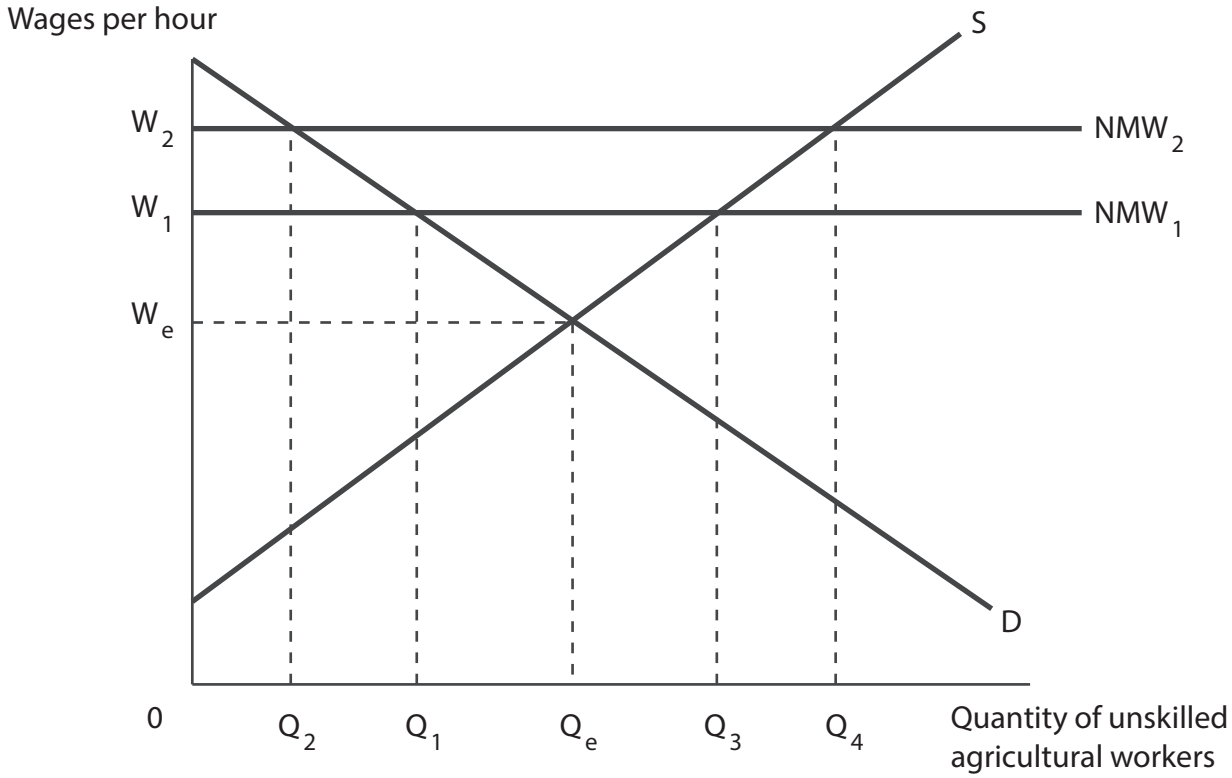
8 The Government of Estonia increased the National Minimum Wage (NMW) by 10% in 2014. The diagram below shows the labour market for unskilled agricultural workers in Estonia.



This change in the National Minimum Wage (NMW) from W_1 to W_2 is likely to increase **(1)**

A the demand for unskilled agricultural workers

B unemployment of unskilled agricultural workers

C the shortage of unskilled agricultural workers

D the number of unskilled agricultural workers employed

(a) Answer ☐

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(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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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 this box ☒ .

Question 10 starts on page 24.

9 The Indian hotel market

Extract 1 Hotel industry becomes a casualty of slowing economy

The fall in consumer incomes in India and across the developed world is having an impact on the hotel industry in India. This has led to a reduced number of tourists and the price of hotel rooms falling.

These declining consumer incomes have resulted in most hotels operating at around 50% capacity, says the Federation of Hotel and Restaurant Associations of India (FHRAI). They found that average hotel occupancy had dropped from 71.5% in 2006 to 58.3% in 2013. The average price of one night in a hotel room fell to its lowest level in 5 years from Rs 7 989 in 2008 to Rs 6 214 in 2013.

One reason for this price change is that business and leisure travellers, both domestic and international, are less willing and able to stay in hotels. Another reason is that in 2008, when the Indian economy was performing well and the average price of one night in a hotel room was rising, a number of investors started to build hotels. These hotels started opening in 2013, when the economy was performing less well. This resulted in around 12 782 new rooms being added in 2013.

(Source: adapted from 'Hotel industry becomes a casualty of slowing economy; check-in rates fall' by Ravi Teja Sharma & Mansi Tewari, ET Bureau Jun 25, 2013 http://articles.economictimes.indiatimes.com/2013-06-25/news/40186610_1_royal-orchid-samhi-hotels-hilton-mumbai)

Extract 2 Achieving the benefits of tourism in India

Travel and tourism plays an important role in India's economy. Tourism benefits the hotels, retail shops, transportation services, entertainment venues and attractions. There are also benefits in terms of government spending on infrastructure, as well as the domestic spending of Indians employed in tourism.

In India, there is a growing trend toward eco-tourism. Holiday companies involved in eco-tourism promote the more efficient use of water and electricity and the implementation of recycling programmes.

India, despite its vast size, diversity, rich culture and historical attractions, only attracted 6.5 million foreign tourists in 2012. In the same year, Dubai attracted more than 10 million foreign tourists and Singapore received 14.4 million visitors from overseas.

The Indian Government has increased indirect tax on hotel rooms and this has had an impact on the hotel sector. Many hotels have been able to pass this tax increase on to their customers. The Government hopes to use the revenue raised to invest in infrastructure such as roads and airports.

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In recent years India has reduced regulations so that tourists from 11 countries including Japan, Finland, New Zealand and Singapore can enter the country more easily, as they can arrange their visas upon arrival. This resulted in a 29% increase in arrivals from those countries in the first eight months of 2013 compared to the same period in 2012. 15

India is planning to reduce regulations further by allowing visas on arrivals for an additional 40 countries, to encourage more visitors from these countries. 20

(Source: adapted from 'What Are the Benefits of Tourism in India?' by Danielle Hill, Demand Media http://traveltips.usatoday.com/benefits-tourism-india-62890.html)

(Source: adapted from 'India opens up visa on arrival to 40 countries to promote tourism' by Rebecca Bundhun, October 2013, http://www.thenational.ae/business/industry-insights/tourism/india-opens-up-visa-on-arrival-to-40-countries-to-promote-tourism#page2)

(a) Explain why 'The average price of one night in a hotel room fell to its lowest level in 5 years' in 2013. (Extract 1, Lines 7 and 8). Illustrate your answer with a supply and demand diagram.

(6)

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

(4)

(c) Using the concept of income elasticity of demand, examine the likely impact of declining incomes on the hotel industry in India.

(10)

(d) With reference to Extract 2 and your own knowledge, assess the possible impact on consumers, producers and the Government of the increase in indirect tax on hotel rooms. Use an appropriate diagram in your answer.

(14)

(e) Evaluate the possible economic effects of reducing government regulations to encourage more tourists to visit India.

(14)

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

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(10)

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(14)

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(e) Evaluate the possible economic effects of reducing government regulations to encourage more tourists to visit India.

(14)

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(Total for Question 9 = 48 marks)

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

10 Higher education

Extract 1 US university leaders call for more funding

University leaders in the US are concerned about the effects on student fees and student numbers of Government cuts to higher education subsidies. These cuts are in contrast to increased subsidies being offered in other countries. Over the past two decades, China, Singapore and South Korea have dramatically increased investment in higher education.

The 2013 'Education Pays Report' in the US found that the median earnings of university graduates are 65% higher over a 40-year working life than those leaving high school who did not attend university.

Some people question the value of higher education and focus on student debt and graduate unemployment. The report shows that while higher education may not benefit all, "on average and for most students, university is an excellent financial investment". The financial benefits from higher education may take time to accumulate, especially if a student graduates at a time when the economy is weak.

The report detailed several benefits of university education not related to salary. Graduate workers are more likely to receive health insurance and pension benefits, and have higher levels of job satisfaction. They are less likely to smoke or to be obese than non-graduates. Firms benefit from a more productive workforce and health services are put under less pressure. University graduates generate increased tax revenue and less is spent on state benefits. Attending university is surely the most rational choice given the huge benefits of higher education.

(Source: adapted from 'US university heads make funding call' by Chris Parr 1 August 2013 http://www.timeshighereducation.co.uk/news/us-university-heads-make-funding-call/2006206.article)

(Source: adapted from 'Higher Education's Payoff' By Megan Rogers, Inside Higher Ed October 2013, http://www.insidehighered.com/news/2013/10/07/college-board-releases-education-pays-report#ixzz2jPrrKGQ2)

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Figure 1 UK university league table: The Guardian University Guide 2014

Rank	Institution	Quality of teaching /100	Number of students per staff member	Graduates employed in degree related career (%)
1	Cambridge	100	11.6	81
2	Oxford	96.2	11.1	76
3	London School of Economics	90.7	11.1	82
4	St. Andrews	88.3	12.6	74
5	UCL	85.5	10	82

(Source: http://www.theguardian.com/education/table/2013/jun/03/university-league-table-2014)

Extract 2 UK universities to be investigated

The Office of Fair Trading (OFT) examines competition in the UK. It has made a "call for information on the provision of undergraduate higher education in England by universities and other institutions", in response to the introduction of new higher fees for students.

The OFT said it was particularly interested in how universities compete between themselves to attract and educate students. Nicola Dandridge, Chief Executive of Universities UK, said, "universities have done a great deal already to increase the amount of available information on courses and to respond to feedback from students".

Sonia Sodha, from the consumer pressure group, Which?, said: "We're pleased the OFT is looking into higher education and we hope this leads to an improvement in the quality of university courses. Our comparisons with previous decades show that today's students are working for fewer hours, are set less work and are receiving less detailed feedback".

(Source: 'Universities to come under OFT microscope', By John Morgan, October 2013 http://www.timeshighereducation.co.uk/news/universities-to-come-under-oft-microscope/2008359.article)

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(a) Explain the likely impact on student fees and student numbers of the Govenment cuts to higher education subsidies in the US.

(6)

(b) Examine the likely impact of an 'increased investment in higher education' (Extract 1, Lines 4 and 5) on the production possibility frontier for Singapore's economy. Illustrate your answer with an appropriate diagram.

(10)

(c) Using the concept of external benefits, assess the economic effects of higher education. Illustrate your answer with an appropriate diagram.

(14)

(d) Explain, using the concept of opportunity cost, **one** reason why some young people who are qualified to attend university will not do so.

(4)

(e) Using the information provided and your own knowledge, evaluate the extent to which asymmetric information may exist in the market for higher education.

(14)

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(a) Explain the likely impact on student fees and student numbers of the Govenment cuts to higher education subsidies in the US.

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(14)

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(Total for Question 10 = 48 marks)

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