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Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

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Economics

International Advanced Subsidiary
Unit 1: Markets in Action

Tuesday 19 January 2016 – 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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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 Statement 1

Thailand increased the amount it spends on education as a % of GDP from 4.1% in 2009 to 7.6% in 2012.

Statement 2

Thailand should review its education system because it spends more than neighbouring countries but its students perform less well according to international comparisons.

(a) Which **one** of the following best describes the two statements?

(1)

A Both statements are normative

B Statement 1 is normative and statement 2 is positive

C Both statements are positive

D Statement 1 is positive and statement 2 is normative

Answer ☐

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(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 (a) One function of the price mechanism is to

(1)

A create an incentive to decrease production when the price of a good rises

B ration scarce resources by causing the price to rise when demand for a product rises

C signal to producers that demand is rising when the price of a good falls

D encourage government intervention to correct market failure

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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3 (a) Workers at the Quality Trainers factory perform all tasks in the production of trainers from start to finish. If the owners decide to apply the division of labour to their production process, this may lead to

(1)

A an increase in output per worker

B a decrease in total output

C a decrease in the monotony of work

D an increase in time taken to produce each item

Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 (a) Some consumers are unlikely to change their electricity suppliers even when other suppliers offer a lower price. This behaviour may be caused by

(1)

A consumer awareness of external benefits

B consumers feeling undervalued by their current provider

C consumer inertia

D consumers being good at computation

Answer ☐

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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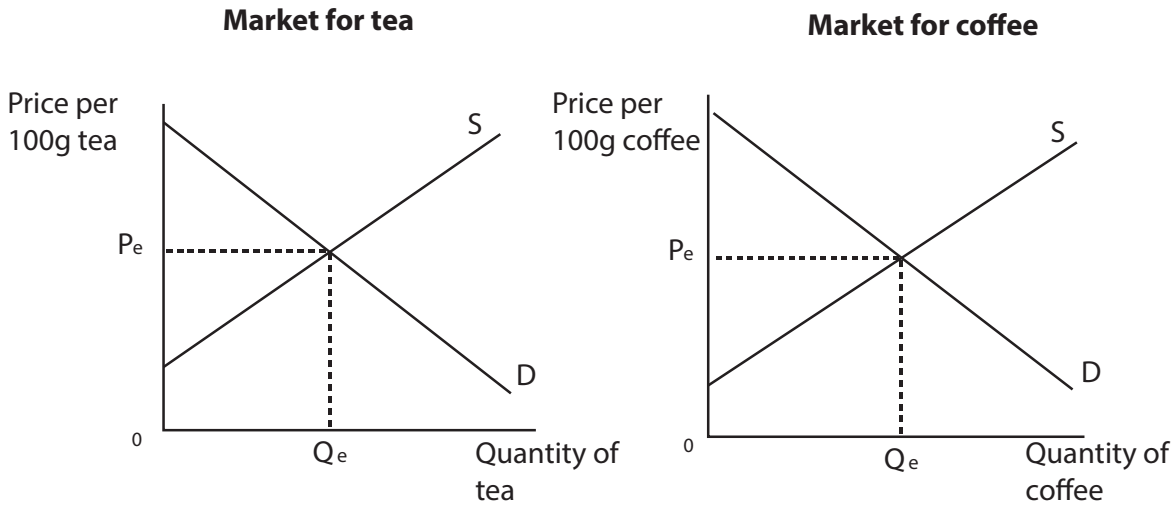
5 The diagrams show the markets for tea and coffee in 2015.



(a) Rising temperatures and poor rainfall mean that India is predicting a smaller tea harvest in 2016. Other things being equal, this is most likely to cause

(1)

	Price of tea	Price of coffee
A	Rise	Rise
B	Rise	Fall
C	Fall	Fall
D	Fall	Rise

Answer ☐

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(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 (a) Boeing believes that global airline passenger numbers will rise by around 5% per year over the next 20 years. Boeing estimates the number of aircraft will rise from 21 000 today to over 42 000 by 2033.

The most likely effect on the market for aircraft engineers is that

(1)

A employment will fall

B the wage rate will rise

C the wage rate will fall

D unemployment will rise

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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QUESTION 7 BEGINS ON THE NEXT PAGE.

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7 (a) In the USA, 24% of 18-29 year olds have no health insurance. This is despite the medical costs, as shown in the table below.

Treatment	Medical cost
Three-day hospital stay	$27 995
A ruptured appendix	$48 150
An average ambulance ride	$2 567

One possible reason why some 18-29 year olds have no health insurance is that

(1)

A the indirect taxes imposed on health insurance have decreased

B healthcare is non-excludable

C there is no opportunity cost when paying for health insurance

D there is imperfect information about the cost of treatments

Answer ☐

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) Which **one** of the following is an example of market failure?

(1)

A Training programmes aimed at improving output per worker

B The price of a commodity rising in order to ration the item

C The private sector not providing public goods

D Excessive administration costs after the introduction of regulation

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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QUESTION 9 BEGINS ON THE NEXT PAGE.

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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 30.

9 The market for cocoa

Extract 1 Chocolate price rises

Cocoa production increased by 3% a year from 4.3 million tonnes in 2008 to 4.8 million tonnes in 2012. Despite increased production, cocoa farmers were unable to keep up with demand with global consumption reaching 5.54 million tonnes. Rising incomes in China, India and Brazil are leading to increased demand for chocolate for which cocoa is a key ingredient.

In response to rising cocoa prices, which hit a three-year high of $3 174 per tonne in June 2014, chocolate manufacturers increased their prices. Hershey increased prices by 8% and Mars by 7% in 2014. It was the first price rise in 3 years for both companies.

Chocolate manufacturers try to avoid price increases for consumers by reducing portion sizes. Toblerone removed one of the mountain-like triangles from its chocolate bar so that the price would remain at £1. Lindt prefers to absorb the rising cost to remain competitive but has reluctantly increased prices.

The area of land available for the production of cocoa is relatively small. The majority of cocoa crops come from small family run farms in Ghana, Nigeria, Cameroon, Indonesia, Malaysia, Papua New Guinea, Brazil, Colombia and Ecuador. Being able to grow more cocoa is unlikely as so few countries grow it. It takes 3-5 years for a cocoa tree to mature enough to deliver a crop.

Rising cocoa prices are not necessarily benefiting small-scale farmers and workers. The average income of cocoa farmers and workers in West Africa is far below the level needed to meet their basic needs with many earning less than $1.25 per day. This income does not cover the basic needs including shelter, nutrition, drinking water, healthcare, education and child care. Consequently, there is a case for a minimum wage to be introduced for cocoa workers in West Africa.

(Source: adapted from: 'The price of a chocolate bar is about to rise. Here's why' by Lynsey Barber, July 27, 2014, http://www.cityam.com/1406459963/chocolate-prices-are-going-here-s-why)

(Source: adapted from: 'Ensure fair payment to cocoa farmers and their workers' http://makechocolatefair.org/ensure-fair-payment-cocoa-farmers-and-their-workers)

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Extract 2 Taxes on foods that contribute to obesity do work

A European Commission (EC) report found that indirect taxes on sugar, salt or fat cause reductions in their consumption. These taxes had a negative impact on employment and investment. In addition, smaller manufacturers producing premium and expensive brands might be more affected by food taxes because consumers often switch to cheaper brands.

A common argument against food taxes is that they raise the price of goods compared to the prices of the same goods in neighbouring countries, which do not have the same taxes. This promotes cross-border shopping but the EC report found that increases in cross-border shopping were limited.

Ireland and France have both been considering introducing an indirect tax on sugar-sweetened drinks.

(Source: adapted from "Fat taxes' do work, EU report finds,' 28/07/2014 http://www.euractiv.com/sections/agriculture-food/fat-taxes-do-work-eu-report-finds-303748)

(a) With reference to Extract 1, explain why the price of chocolate bars has increased. Use a supply and demand diagram in your answer.

(6)

(b) With reference to Extract 1, explain whether the price elasticity of supply of cocoa will be elastic or inelastic.

(4)

(c) Discuss whether chocolate manufacturers consider the demand for chocolate to be price elastic or price inelastic.

(10)

(d) Examine the likely impact of the introduction of a minimum wage for cocoa workers in West Africa.

(14)

(e) With reference to Extract 2 and your own knowledge, evaluate the likely impact of the planned introduction of indirect taxes on sugar-sweetened drinks in countries such as Ireland. Use an appropriate diagram in your answer.

(14)

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(a) With reference to Extract 1, explain why the price of chocolate bars has increased. Use a supply and demand diagram in your answer.

(6)

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(b) With reference to Extract 1, explain whether the price elasticity of supply of cocoa will be elastic or inelastic.

(4)

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(c) Discuss whether chocolate manufacturers consider the demand for chocolate to be price elastic or price inelastic.

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QUESTION 9(e) BEGINS ON THE NEXT PAGE.

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(e) With reference to Extract 2 and your own knowledge, evaluate the likely impact of the planned introduction of indirect taxes on sugar-sweetened drinks in countries such as Ireland. Use an appropriate diagram in your answer.

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QUESTION 10 BEGINS ON THE NEXT PAGE.

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

10 The cotton market

Extract 1 Cotton prices fall

In 2014, cotton prices fell to their lowest level in 5 years as global production exceeded demand. The USA, the world's biggest cotton exporter, produced a large crop. After years of drought in the state of Texas, rain in cotton-growing areas created ideal growing conditions. It takes about six months from planting to harvesting the cotton crop. The Government forecast that cotton output in 2014-15 would rise by 10% to 16.5 million bales.

The amount of cotton stockpiled globally in 2015 was expected to reach 105.7 million bales. China, the largest importer of cotton, had found that weak domestic demand for cotton resulted in excessive stocks. Therefore, it decided to end its 2½-year stockpiling programme, which caused a reduction in the global demand for cotton.

The International Monetary Fund cut its global economic growth forecast from 3.7% to 3.4% for 2015. The demand for cotton is particularly sensitive to economic growth because demand is tied to consumer spending on items such as clothing, bed sheets and towels. When economic growth or consumer incomes rise, demand for those items tends to rise.

(Source: adapted from: 'Cotton Price Unravels as Supplies Rise,' by Alexandra Wexler, July 27 2014, http://online.wsj.com/articles/cotton-price-unravels-as-supplies-rise-1406484472)

Extract 2 Minimum prices for cotton in India

Indian cotton farmers have looked to their Government for support. China is India's main customer and the Chinese decision to reduce its demand for cotton has affected Indian cotton farmers significantly. The Indian Government has been urged to support cotton farmers by increasing the minimum price offered from the existing Rs 4 050 to Rs 6 500 per bale.

(Source: adapted from 'Farmers seek ban on cotton imports,' 29 July 2014, http://www.cottonyarnmarket.net/news/news.php?action=fullnews&id=15211)

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Extract 3 Water use

According to the World Wildlife Fund (WWF), it takes 2 700 litres of water to produce a single t-shirt. Water is used for cotton cultivation, textile dyeing and finishing of the t-shirt.

The Better Cotton Initiative is trying to minimise this environmental impact by educating farmers on reducing water and pesticide use. Often the water used has chemicals left in it making it difficult to recycle or reuse. The impact of the pesticides and chemicals that get left in the environment is harmful to animals and plant life.

Water use in developing countries is predicted to increase by 50% between 2007 and 2025 and by 18% in developed countries. With only 3% of the world's water suitable for human consumption, there is increasing competition for this finite resource.

(Source: adapted from '10 things you need to know about water impacts of the fashion industry', by Hannah Gould, 4 September 2014, http://www.theguardian.com/sustainable-business/sustainable-fashion-blog/2014/sep/04/10-things-to-know-water-impact-fashion-industry)

(a) With reference to Extract 1, explain why the price of cotton has decreased. Use a supply and demand diagram in your answer.

(6)

(b) With reference to Extract 1 and your own knowledge, discuss the impact of an increase in incomes on the demand for clothing.

(10)

(c) With reference to the information provided, explain what is meant by a 'finite resource' (Extract 3, line 10).

(4)

(d) Evaluate the impact of the proposed increase in the minimum price for cotton on producers and consumers in India.

(14)

(e) Using the concept of external costs, examine the possible economic effects of producing cotton t-shirts. Use an appropriate diagram in your answer.

(14)

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(a) With reference to Extract 1, explain why the price of cotton has decreased. Use a supply and demand diagram in your answer.

(6)

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QUESTION 10(b) BEGINS ON THE NEXT PAGE.

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(b) With reference to Extract 1 and your own knowledge, discuss the impact of an increase in incomes on the demand for clothing.

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(c) With reference to the information provided, explain what is meant by a 'finite resource' (Extract 3, line 10).

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(d) Evaluate the impact of the proposed increase in the minimum price for cotton on producers and consumers in India.

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(e) Using the concept of external costs, examine the possible economic effects of producing cotton t-shirts. Use an appropriate diagram in your answer.

(14)

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(Total for Question 10 = 48 marks)

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