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Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Tuesday 8 January 2019

Afternoon (Time: 1 hour 30 minutes) | Paper Reference **WEC01/01**

Economics

International Advanced Subsidiary
Unit 1: Markets in Action

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.*
- 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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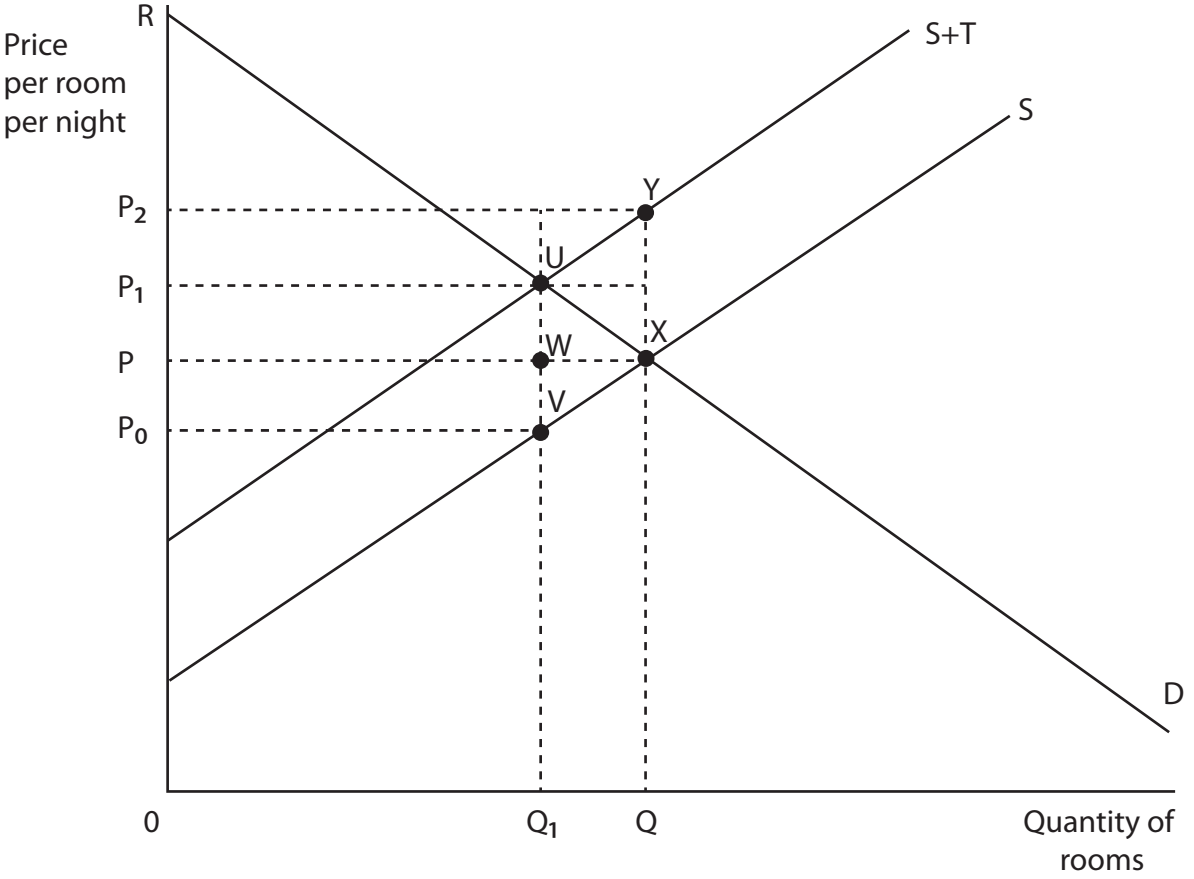
SECTION A

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 In September 2017 the Malaysian Government introduced an indirect tax on hotel rooms charged at RM10 per room per night.



(a) Which area represents the Government's revenue from this tax?

(1)

A PP_1UX

B P_0P_1UV

C PP_1UW

D P_0PWV

Answer

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(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 Some consumers remain with their current bank even when higher interest rates on savings accounts are available at other banks.

(a) This behaviour may be caused by

(1)

A consumer inertia

B consumers being good at computation

C consumers feeling undervalued by their current provider

D occupational immobility

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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3 The African Development Bank is to provide funds to the Governments of Cote d'Ivoire and Ghana. The finance is to be partly used to fund the provision of public goods.

(a) Which one of the following statements about public goods is true?

(1)

A Public goods are an example of government failure

B Public goods may be under-provided by the private sector

C There is excludability in the consumption of public goods

D There is rivalry in the consumption of public goods

Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 The table shows the total utility gained by Rashid as he increases the number of bottles of water he consumes in one day. You should use the table to show your workings.

Bottle of water	Total utility	Marginal utility
1	10	
2	22	
3	30	
4	36	
5	40	

(a) Diminishing marginal utility first occurs when consumption increases from

(1)

A 0 to 1 unit

B 1 to 2 units

C 2 to 3 units

D 3 to 4 units

Answer ☐

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(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 (a) Which one of the following is most likely to result in an increase in consumer surplus in the market for butter?

(1)

A The removal of a subsidy to butter producers

B An increase in the cost of milk used in producing butter

C An increase in the global consumption of butter

D Consumers buying more margarine, a substitute for butter

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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QUESTION 6 BEGINS ON THE NEXT PAGE.

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6 A survey found that 30% of 18 to 24-year-olds who travelled to the USA did not have travel insurance. This is despite the possible medical costs which travellers might have to pay, as shown in the table.

Treatment	Medical cost in USA
Removal of the appendix	$26 000
Broken leg	$7 780
Tooth removal with consultation	$130

(a) One possible reason why some 18 to 24-year-old tourists have no travel insurance is that

(1)

A there is imperfect information about medical costs when travelling abroad

B there is no opportunity cost when tourists pay for travel insurance

C the indirect taxes imposed on travel insurance have decreased

D tourists are geographically immobile

Answer ☐

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(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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7 In India, environmental laws mean chemicals have to be disposed of at specialist waste management centres. To avoid the costs associated with legal disposal, some firms have dumped chemicals in lakes and rivers.

(a) Such illegal dumping of chemicals is an example of

(1)

A positive externalities

B the free rider problem

C a net welfare gain

D government failure

Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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QUESTION 8 BEGINS ON THE NEXT PAGE.

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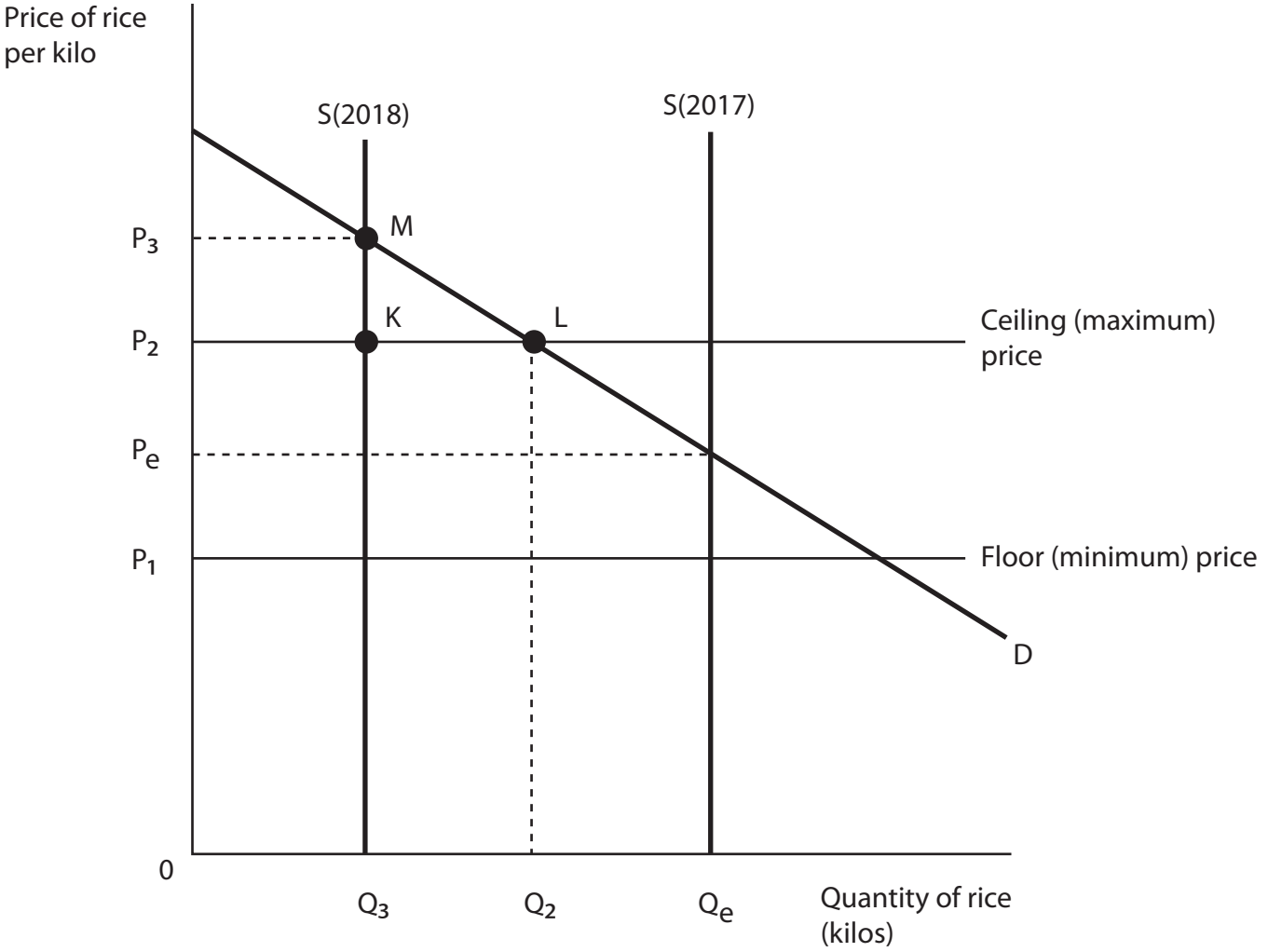
8 The Government of the Philippines operates a buffer stock scheme for rice with the aim of maintaining the price between P_1 and P_2. The supply curves show the supply for 2017 and 2018.



(a) In 2017, the harvest resulted in price, P_e and quantity, Q_e. The 2018 harvest would lead to

(1)

A a decrease in the price to P_1 due to a good rice harvest

B the Government buying rice and adding to its stockpile

C the Government selling rice from its stockpile

D the floor (minimum) price being lowered

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 the box ☒ .

Question 10 starts on page 28.

9 Labour markets

Extract 1 Mining in China

China has moved from a manufacturing-based to a service-based economy. At the same time there is a lack of growth in the European Union. Both of these have contributed to lower demand for Chinese coal and iron ore. In Heilongjiang, North East China, mining employment decreased from 488 000 to 359 000 between 2008 and 2015. Many older miners who lost their jobs lack the transferable skills or resources to retrain for other industries.

Coal mining causes environmental damage and significant pollution. These result in health problems for people living in areas close to coal mines. For firms, these health problems have resulted in lower productivity and higher levels of absenteeism.

(Source: adapted from 'Digging for Work: Mining Unemployment in China's Shifting Economy', 7 August 2016, The Collective, http://www.coresponsibility.com/mining-unemployment-chinas-economy/)

Extract 2 Immobility of labour in the USA

In 2016 there were 7.4 million unemployed in the USA. At the same time 27.5% of job vacancies remained unfilled after 60 days. While such a high level of vacancies exist, people are often unwilling to move location for the work.

A relocation subsidy financed by the Government could be used to encourage workers to move to areas with job vacancies. This will help cover transport and housing costs. By moving people to where jobs exist the need to pay unemployment benefits will fall. Even with the subsidies some of the unemployed will be reluctant to move because of family and friends in their current location.

(Source: adapted from https://tradingeconomics.com/united-states/unemployed-persons and https://www.forbes.com/pictures/588b73eba7ea431d601d76d9/1-the-united-states/#617783e078c5)

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Extract 3 Maximum wage for high earners

In the UK there is a widening income gap between the highest paid and the lowest paid workers. The earnings of business leaders have increased significantly in recent years. For example, executives of the top 100 businesses in the UK take on average just four days to earn the same as an average worker earns in a year.

Jeremy Corbyn, a UK politician, has suggested the Government should introduce a maximum wage. He argued that footballers earning more than £50 million per year was excessive. Similarly, in 2014, the ten highest earning female models earned in excess of £50 million between them.

The introduction of a maximum wage may cause some high earners to leave the country. Government tax revenues could fall because 27% of all income tax is paid by the highest-earning 1% of the workforce. In countries where a maximum wage has been introduced for sports players, some have increased their incomes through sponsorship deals.

(Source: adapted from 'Jeremy Corbyn's maximum wage: It would pose some problems but at least he's heated up the debate', 10 January 2017, James Moore, http://www.independent.co.uk/news/business/comment/jeremy-corbyns-maximum-wage-it-would-pose-some-problems-but-at-least-hes-heated-up-the-debate-a7520046.html and 'Jeremy Corbyn calls for maximum wage law', 10 January 2017, Jessica Elgot, https://www.theguardian.com/politics/2017/jan/10/jeremy-corbyn-calls-for-maximum-wage-law)

(a) With reference to Extract 1, explain the impact of a decline in the demand for coal on wages and employment of coal miners. Illustrate your answer with a labour market diagram.

(6)

(b) With reference to Extract 1 and Extract 2, explain the difference between occupational immobility of labour and geographical immobility of labour.

(4)

(c) With reference to Extract 1, discuss the likely impact of the decline in coal mining on external costs.

(10)

(d) With reference to Extract 2, evaluate the likely impact of the introduction of a relocation subsidy for the unemployed in the USA.

(14)

(e) With reference to Extract 3, evaluate the likely impact of the introduction of a maximum wage. Illustrate your answer with a labour market diagram.

(14)

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(a) With reference to Extract 1, explain the impact of a decline in the demand for coal on wages and employment of coal miners. Illustrate your answer with a labour market diagram.

(6)

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(4)

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(c) With reference to Extract 1, discuss the likely impact of the decline in coal mining on external costs.

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(d) With reference to Extract 2, evaluate the likely impact of the introduction of a relocation subsidy for the unemployed in the USA.

(14)

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(e) With reference to Extract 3, evaluate the likely impact of the introduction of a maximum wage. Illustrate your answer with a labour market diagram.

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(Total for Question 9 = 48 marks)

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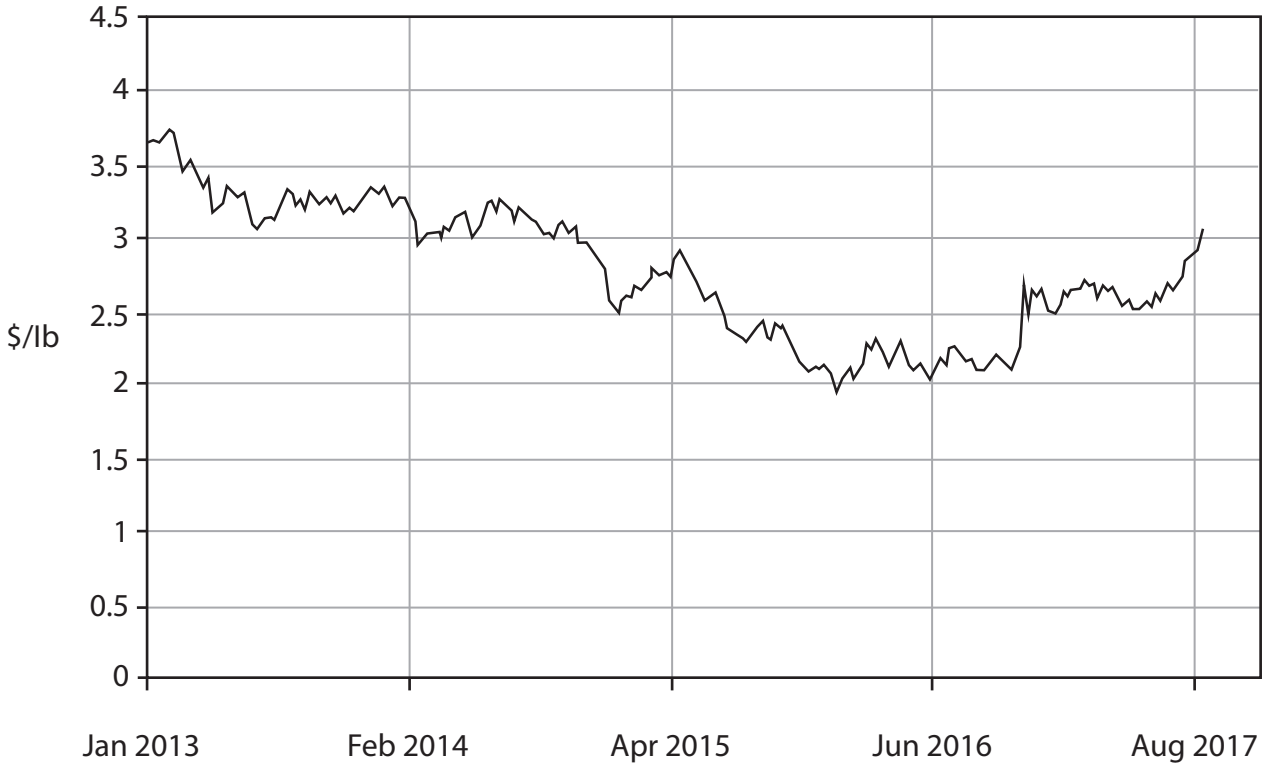
If you answer Question 10 put a cross in the box ☒ .

10 Copper market and LCD screens

Figure 1 Copper price in US dollars ($) per pound (lb), January 2013-August 2017



(Source: http://www.infomine.com/investment/metal-prices/copper/5-year/)

Extract 1 Copper price rises

In August 2017 copper prices increased by 7% to $3.11 per pound, its highest price since September 2014. China's demand for the metal increased as a result of its continued economic growth. China is the world's largest copper consumer buying 46% of global production. China has also restricted imports of recycled copper which means more businesses have switched to buying newly-mined copper. 5

(Source: adapted from 'Copper Prices Are Near a Three-Year High, for One Key Reason', Kinsey Grant, 31 August 2017, https://www.thestreet.com/story/14290007/1/copper-prices-head-for-three-year-high.html)

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Extract 2 Elasticities of demand and supply in the global copper market

Copper has few close substitutes. Although it is possible to use aluminium in place of copper in some industries, there are costs and delays involved in switching between the two metals.

The supply of copper is usually unresponsive to price movements in the short term because of the high fixed costs and lengthy start-up times involved in developing new copper mines. Existing copper mining businesses are working close to their current capacity. It can take huge price changes in the industry for supply to respond sufficiently to bring the market back to equilibrium. However, during the most recent global economic slowdown copper was stored.

(Source: adapted from http://investingnews.com/daily/resource-investing/base-metals-investing/copper-investing/emerging-markets-the-driving-force-behind-coppers-rally/)

Extract 3 Subsidy to attract Foxconn to Wisconsin

A Taiwanese manufacturer, Foxconn, is to invest $10 billion in a factory in Wisconsin, USA. The Wisconsin Government has offered a $3 billion subsidy to Foxconn. It will employ 13 000 people and produce LCD panels for TVs, computers and medical equipment. It has been estimated that a further 19 000 to 26 000 jobs will be created at firms supplying the factory. It is claimed that for every $1 in subsidy there will be a benefit of $3.90 to the local economy.

The production of LCD panels requires the use of metals including copper, mercury and zinc. The extraction of these metals and their transport to Wisconsin causes environmental damage. Foxconn is to be allowed to discharge materials into lakes and to divert streams during construction of the factory. However, Foxconn will be required to restore two acres of wetlands for every one acre it destroys.

Businesses in Wisconsin have been struggling to train, attract and retain workers. A significant number of workers are retiring and birth rates are falling. Further, between 2010 and 2015, net migration resulted in 17 000 more people leaving Wisconsin than entering it. To reduce the incentive to leave, more employment opportunities need to be provided to attract new employers to the region.

(Source: adapted from 'Foxconn deal demands due diligence', 29 August 2017, http://www.kenoshanews.com/opinion/today_s_opinion/our-view-foxconn-deal-demands-due-diligence/article_e8bdbd83-e63e-5ff2-a552-c36d0ca3765a.html and 'Demographics pose problems for Wisconsin's workforce', 7 January 2017, Tom Still, http://www.jsonline.com/story/money/columnists/tom-still/2017/01/07/still-demographics-pose-problems-wisconsins-workforce/96263992/)

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(a) With reference to Figure 1 and Extract 1, explain why copper prices increased by 7% in August 2017. Illustrate your answer with a supply and demand diagram.

(6)

(b) With reference to Extract 2, explain why the demand for copper is likely to be price inelastic.

(4)

(c) With reference to Extract 2, discuss whether the supply of copper is likely to be price elastic or price inelastic.

(10)

(d) With reference to Extract 3, evaluate the likely impact of the $3 billion subsidy to Foxconn on people living in Wisconsin.

(14)

(e) With reference to Extract 3, evaluate the likely impact of Wisconsin's net migration on the housing market between 2010 and 2015. Illustrate your answer with a relevant diagram.

(14)

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(a) With reference to Figure 1 and Extract 1, explain why copper prices increased by 7% in August 2017. Illustrate your answer with a supply and demand diagram.

(6)

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(b) With reference to Extract 2, explain why the demand for copper is likely to be price inelastic.

(4)

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(Total for Question 10 = 48 marks)

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

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