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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

Monday 11 May 2015 – Morning
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 is to introduce a tourist tax of 500 baht to cover the increasing number of unpaid medical bills of visitors.

Statement 2
The plan to introduce a tourist tax to cover the unpaid medical bills of visitors to Thailand is fair.

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

(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 ☐

(b) Explanation

(3)

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(Total for Question 1 = 4 marks)

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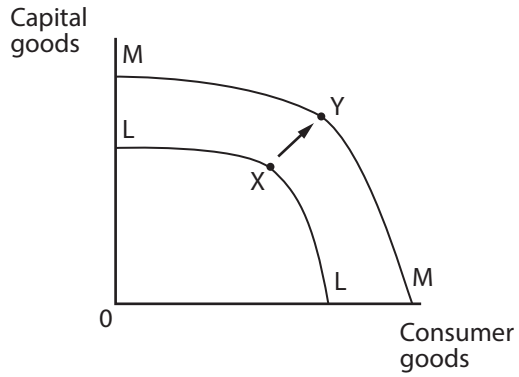
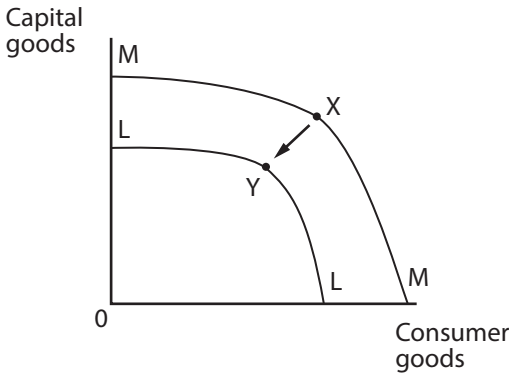
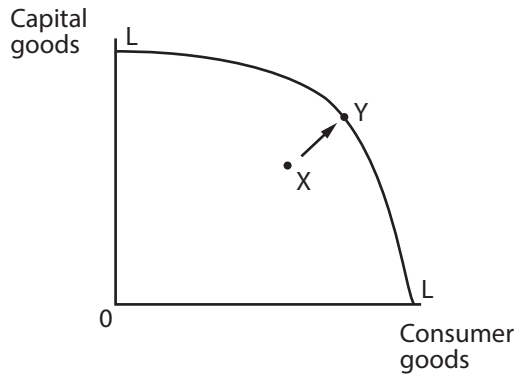
2 The diagrams below show movements from position X to Y on production possibility frontiers.



A



B



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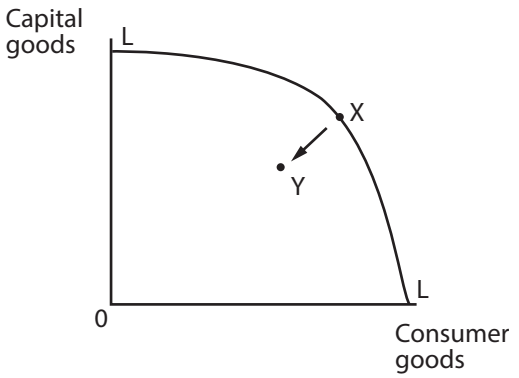

D

(a) In which of these diagrams does the movement from X to Y illustrate an increase in output in the economy by using unemployed resources?

(1)

Answer

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(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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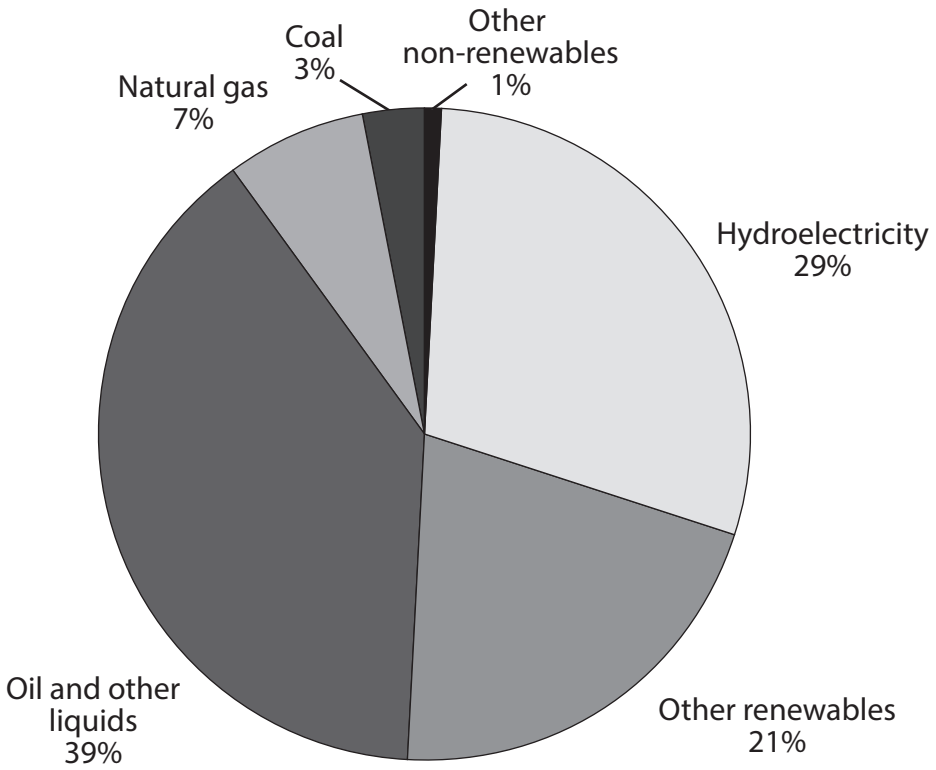
3 The chart below shows the different types of energy used in Brazil in 2008.



(Source: http://www.globalccsinstitute.com/location/brazil)

(a) It can be deduced from the data that

(1)

A most of the energy used was from renewable resources

B most of the energy used was from non-renewable resources

C an equal proportion of renewable and non-renewable resources was used

D more energy was produced using hydroelectricity than any other resource

Answer ☐

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 (a) In Scotland, a dentist has been stopped from practising after allowing staff to give children unnecessary treatment at her clinics. A likely explanation for completing this non-essential work is that

(1)

A consumers need to feel valued

B there are external benefits from dental care

C dental care is a public good

D there is asymmetric information

Answer ☐

(b) Explanation

(3)

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(Total for Question 4 = 4 marks)

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5 (a) Otorohanga, a town in New Zealand, is offering relocation subsidies to people. The **most likely** impact of this is to

(1)

A improve geographical mobility of labour

B reduce the supply of labour in the area

C cause occupational immobility of labour

D cause geographical immobility of labour

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 (a) For which one of the following pairs of goods is the cross price elasticity of demand likely to be positive?

(1)

A Milk and cheese

B Computer games consoles and computer games

C Rail travel and bus travel

D Rice and aeroplanes

Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

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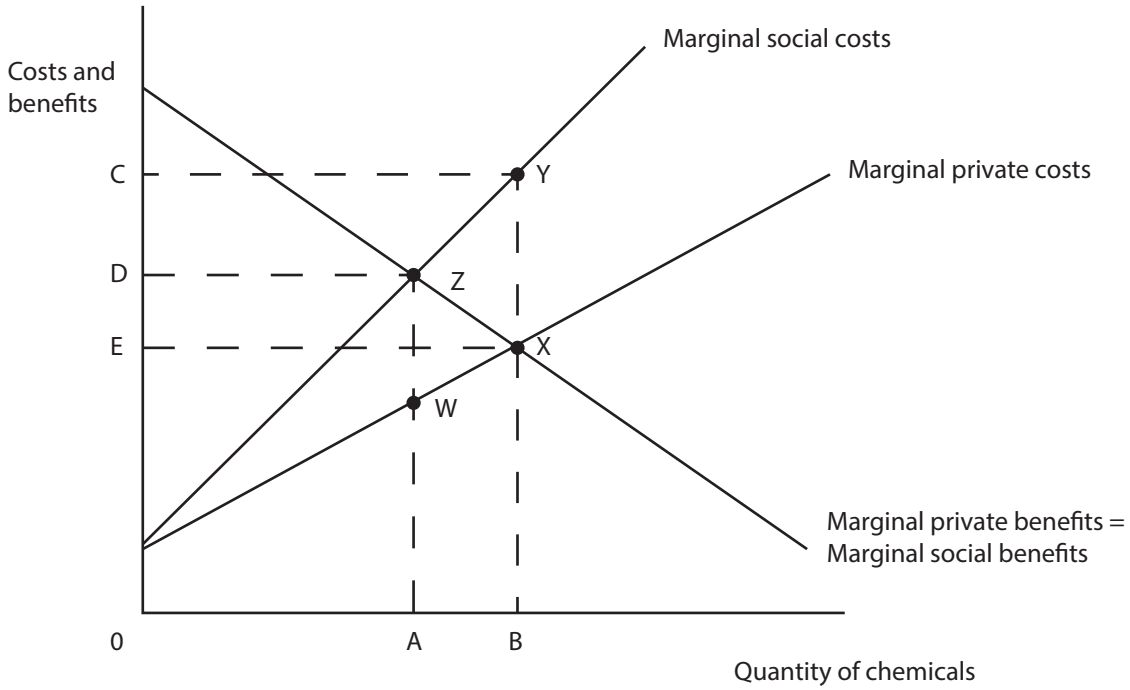
7 In 2013, a chemical factory in Mandurai, India, was forced to close after it was discovered that it had dumped chemical waste into wells in the town nearby.



(a) The diagram above shows the market for chemical production. From this diagram, it can be deduced that

(1)

A social optimum quantity exceeds the free market equilibrium quantity

B the area of welfare loss is WXZ

C the area of welfare loss is XYZ

D to reach the social optimum quantity the government should subsidise the production of chemicals

Answer ☐

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) SSE provides gas and electricity to households in the UK. It increased prices, on average, by 8.2% in October 2013. Subsequently, 50 000 households switched to cheaper gas and electricity providers. The decision by these households to switch providers can be explained by consumers

(1)

A being poor at computation

B behaving rationally

C behaving habitually

D minimising their total utility

Answer ☐

(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 25.

9 The clothing industry in Bangladesh

Extract 1 Despite 1100 clothing factory deaths, Bangladeshi clothing exports rise

Bangladesh specialises in the production of clothing, which accounts for 80% of its exports. In April 2013, a fire in a clothing factory saw 1 100 die but despite this there has been a 13% growth in Bangladeshi clothing exports.

After the fire, 70 manufacturers agreed to improve worker safety. The Bangladeshi Government introduced regulations to improve workers' safety and to protect trade union rights. Some factories are struggling with higher costs caused by these additional regulations and by retailers demanding stricter safety standards after the fire. There is some doubt about the Government's ability to regulate the clothing industry which employs over 4 million people.

The labour laws mean workers need a factory owner's permission to start a trade union.

US congressman George Miller visited Bangladesh and said that workers are in danger of losing their job if they join a trade union. Only 29 out of 5 000 factories eligible for trade unions have received approval so far.

Over 1 000 workers died in factory fires or accidents from 1990 to 2012, but not a single owner was charged with any crime.

(Source: adapted from 'After 1 100 garment factory deaths, Bangladeshi clothing exports went up' by Nandagopal J. Nair, July 2013, http://qz.com/101965/after-1100-garment-factory-deaths-bangladeshi-clothing-exports-went-up/)

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Extract 2 The minimum wage in Bangladesh

A number of strikes by clothing workers in September 2013 prompted the Bangladeshi Government to propose an increase in the minimum wage of between 50% and 80%. This proposed increase in the minimum wage has raised concerns amongst clothing factory owners. However, the current minimum monthly wage for clothing workers is only 3 000 taka, around half the amount earned by workers employed in rival Asian exporters Vietnam and Cambodia.

Smaller factories will be hardest hit by the expected increase. Bangladesh's very low clothing prices are attractive to western retailers and one factory owner said that he would have to increase the price charged to retailers by 30%, if wages went up to 4 500 taka per month. However, it is expected that, if the price charged to retailers increased, they would continue to purchase similar quantities of clothes, even at the higher price. US retailer Wal-Mart is encouraging the Bangladeshi Government to increase the minimum wage to ensure that workers' needs are met. Clothing factory workers need around 6 450 taka a month just for their basic living costs, according to a recent survey.

(Source: adapted from 'Bangladesh poised to hike garment wages, but may not end strikes, by Shyamantha Asokan, October 2013, http://uk.reuters.com/article/2013/10/21/uk-bangladesh-garments-wage-idUKBRE99K02O20131021')

(a) Explain the likely impact on the wage rate of workers in the Bangladeshi clothing industry following the "13% growth in Bangladeshi clothing exports" (Extract 1, line 3). Use a supply and demand diagram in your answer.

(6)

(b) With reference to Extract 1 and your own knowledge, evaluate the possible economic effects of the increased legal regulations on the Bangladeshi clothing industry.

(14)

(c) With reference to Extract 2, explain whether western retailers' demand for clothing made in Bangladesh is likely to be price elastic or price inelastic.

(4)

(d) With reference to Extract 2 and your own knowledge, evaluate the possible economic effects of the proposed increase in the minimum wage. Use an appropriate diagram in your answer.

(14)

(e) Discuss the possible advantages and disadvantages of specialisation and the division of labour in organising production in the Bangladeshi clothing industry.

(10)

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(6)

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(14)

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(c) With reference to Extract 2, explain whether western retailers' demand for clothing made in Bangladesh is likely to be price elastic or price inelastic.

(4)

(d) With reference to Extract 2 and your own knowledge, evaluate the possible economic effects of the proposed increase in the minimum wage. Use an appropriate diagram in your answer.

(14)

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(e) Discuss the possible advantages and disadvantages of specialisation and the division of labour in organising production in the Bangladeshi clothing industry.

(10)

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(Total for Question 9 = 48 marks)

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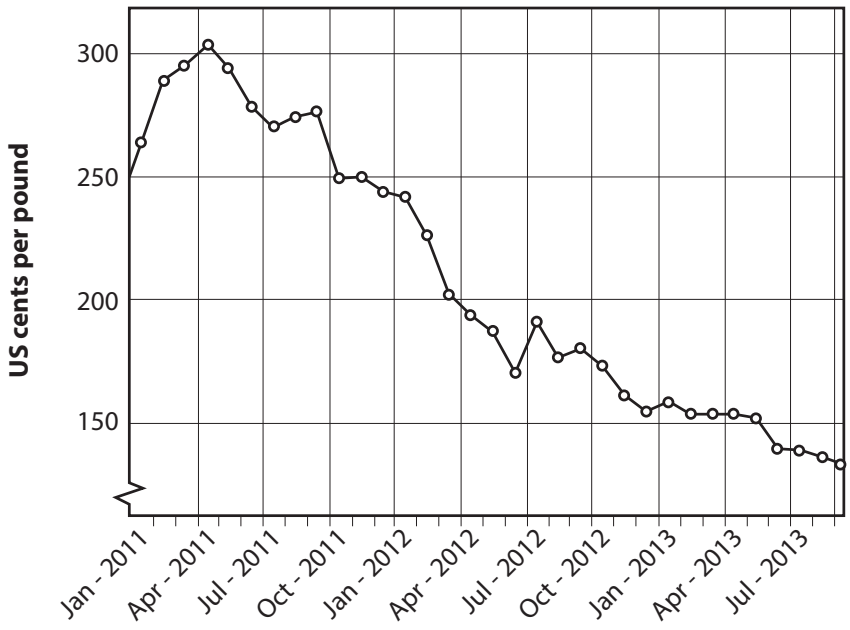
If you answer Question 10 put a cross in box ☒ .

10 Coffee

Figure 1 Coffee (Arabicas) Monthly Price - US cents per pound



(Source: http://www.indexmundi.com/commodities/?commodity =other-mild-arabicas-coffee&months=60)

Extract 1 Coffee prices

Coffee prices fell to a four and a half year low in October 2013 as the market was affected by good harvests in Latin America and Vietnam. Improved weather conditions have helped production levels. Even the price of Arabica coffee, the high-quality bean used in espressos and cappuccinos, has fallen to its lowest level since 2009. In countries like Brazil, these low prices are causing farmers to slowly cut back coffee bean output in favour of more profitable crops.

In the long-run, with rising incomes, demand is increasing in emerging markets like China and India. This, combined with limited supply from South American countries, particularly Brazil, will drive the price upwards. In the long term, this is good news for coffee bean farmers.

(Source: adapted from 'Coffee price slides on Latin America supply' by Emiko Terazono, October 2013, http://www.ft.com/cms/s/0/da1e8e76-3cb3-11e3-86ef-00144feab7de.html#axzz2jOXhbazO)

(Source: 'Coffee Beans: A Market To Watch In 2014', by Nat Rudarakanchana, October 2013, http://www.ibtimes.com/coffee-beans-market-watch-2014-1436836)

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Extract 2 The role of the Kagera Co-operative Union (KCU)

The KCU in Tanzania is the largest and oldest Fairtrade co-operative in Africa and works to bring real benefits to local communities. It has constructed roads and bridges to link farming groups to the coffee collection areas, helping the farmers who have to transport their crops across the hillsides. The KCU has helped with the construction of many schools and health centres.

(Source: 'The benefits of Fairtrade: building future security' Martine Parry, http://www.theguardian.com/sustainable-business/fairtrade-partner-zone/benefits-fairtrade-building-future-security)

Extract 3 Brazilian Government intervention in the coffee market

In August 2013, the price of Arabica coffee had fallen below the Government's minimum price so it decided to intervene. The Government bought three million 60-kilogram bags of coffee at 343 *reals* per bag. This price was above the market price of 285 *reals* per bag that growers were receiving. Some Brazilian growers had organised protests earlier that year to demand government action to support the market.

The Government expected that its intervention would improve the income of coffee farmers and enable them to plan investment and output decisions with greater certainty. However, the extent of the Government's measures will dictate how much, if at all, the move will boost prices on the global market given the excess supply.

In Colombia, the second-biggest producer of Arabica beans after Brazil, coffee farmers announced their second strike of the year. Growers in Colombia intend to pressurise the government to increase their government subsidies. The Colombian government has so far refused the requests, saying coffee farmers already get more subsidies than any other sector in the country.

(Source: 'Government Will Buy Up Supply as Bumper Crop Is Expected' by Jeffrey T. Lewis and Alexandra Wexler, August 2013, http://online.wsj.com/news/articles/SB10001424127887323977304578653951241072628)

(a) With reference to Figure 1 and Extract 1, explain why coffee prices 'fell to a four and a half year low in October 2013'. Use a supply and demand diagram in your answer.

(6)

(b) With reference to Extract 1, explain whether the supply of coffee beans is likely to be price elastic or price inelastic.

(4)

(c) With reference to Extract 2, assess whether the roads built by the KCU in Tanzania are public or private goods.

(10)

(d) Evaluate the possible economic effects of the Brazilian Government's decision to buy 'three million 60-kilogram bags of coffee' (Extract 3, lines 2 and 3)

(14)

(e) With reference to Extract 3 and your own knowledge, evaluate the likely impact on producers and the government of increasing subsidies to coffee producers in Colombia.

(14)

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(a) With reference to Figure 1 and Extract 1, explain why coffee prices 'fell to a four and a half year low in October 2013'. Use a supply and demand diagram in your answer.

(6)

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(14)

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(e) With reference to Extract 3 and your own knowledge, evaluate the likely impact on producers and the government of increasing subsidies to coffee producers in Colombia.

(14)

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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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