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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 16 May 2016 – 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** 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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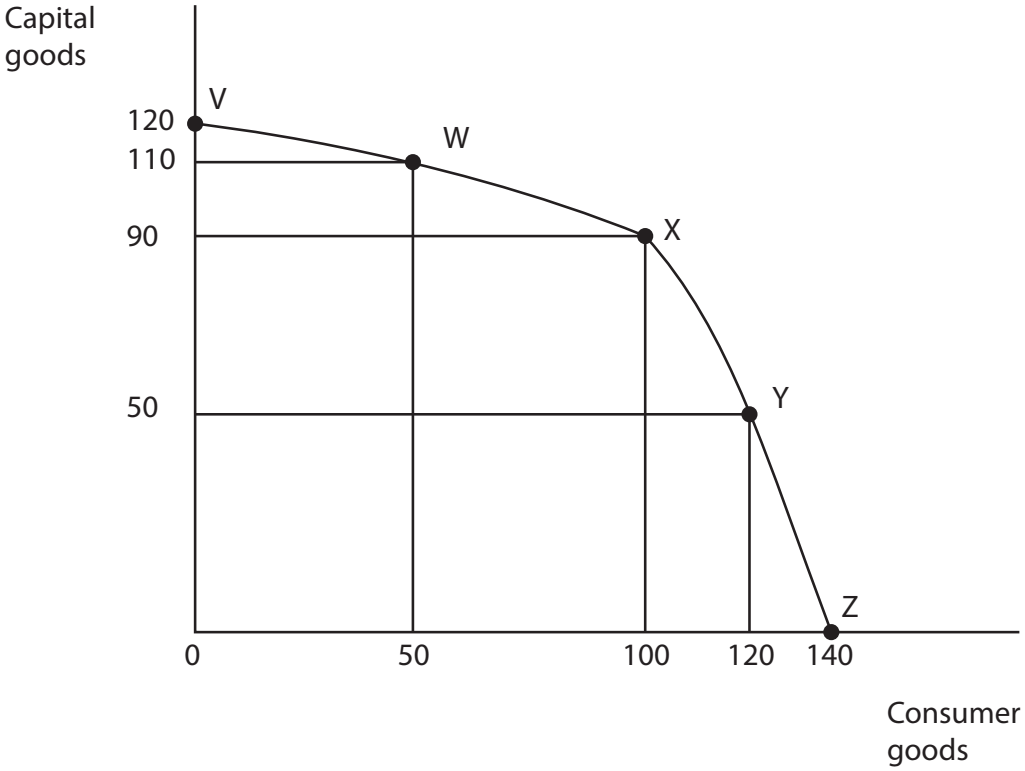
SECTION A

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



(a) Which of the following movements has an opportunity cost of 20 units of consumer goods?

(1)

A W to V

B W to X

C Y to X

D Y to Z

Answer

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(b) Explanation

(3)

(Total for Question 1 = 4 marks)

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2 (a) One of the roles of the state in a mixed economy is to

(1)

A subsidise goods with negative externalities

B allocate resources using the price mechanism

C impose taxation on goods with external benefits

D provide public goods from tax revenues

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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QUESTION 3 BEGINS ON THE NEXT PAGE.

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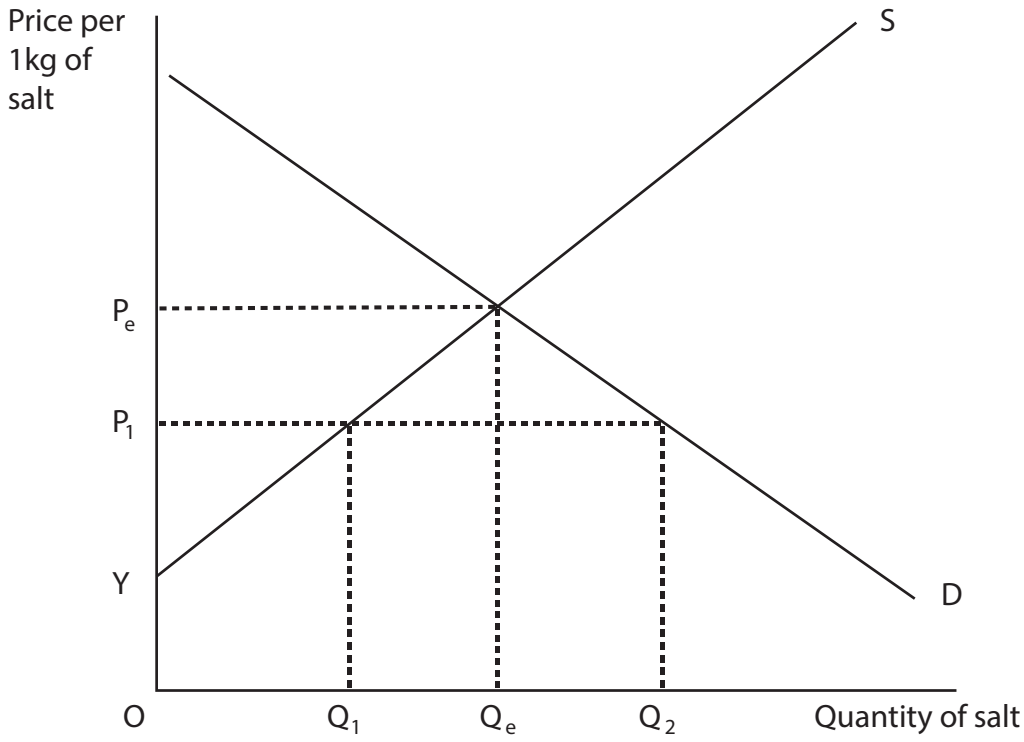
3 The diagram shows the market for salt.



(a) P_1 was the maximum price set by the government and this has now been removed. The most likely outcome is that the

(1)

A price will rise

B supply curve will shift to the right

C quantity demanded will rise

D quantity supplied will fall

Answer

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(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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4 Amazon currently sells 100 000 copies per year of an e-book at $14.99. The company estimates that customers would buy 174 000 copies of the same e-book at a price of $9.99.

(a) From this information it can be deduced that

(1)

	Price elasticity of demand	Total Revenue
A	inelastic	rises
B	inelastic	falls
C	elastic	rises
D	elastic	falls

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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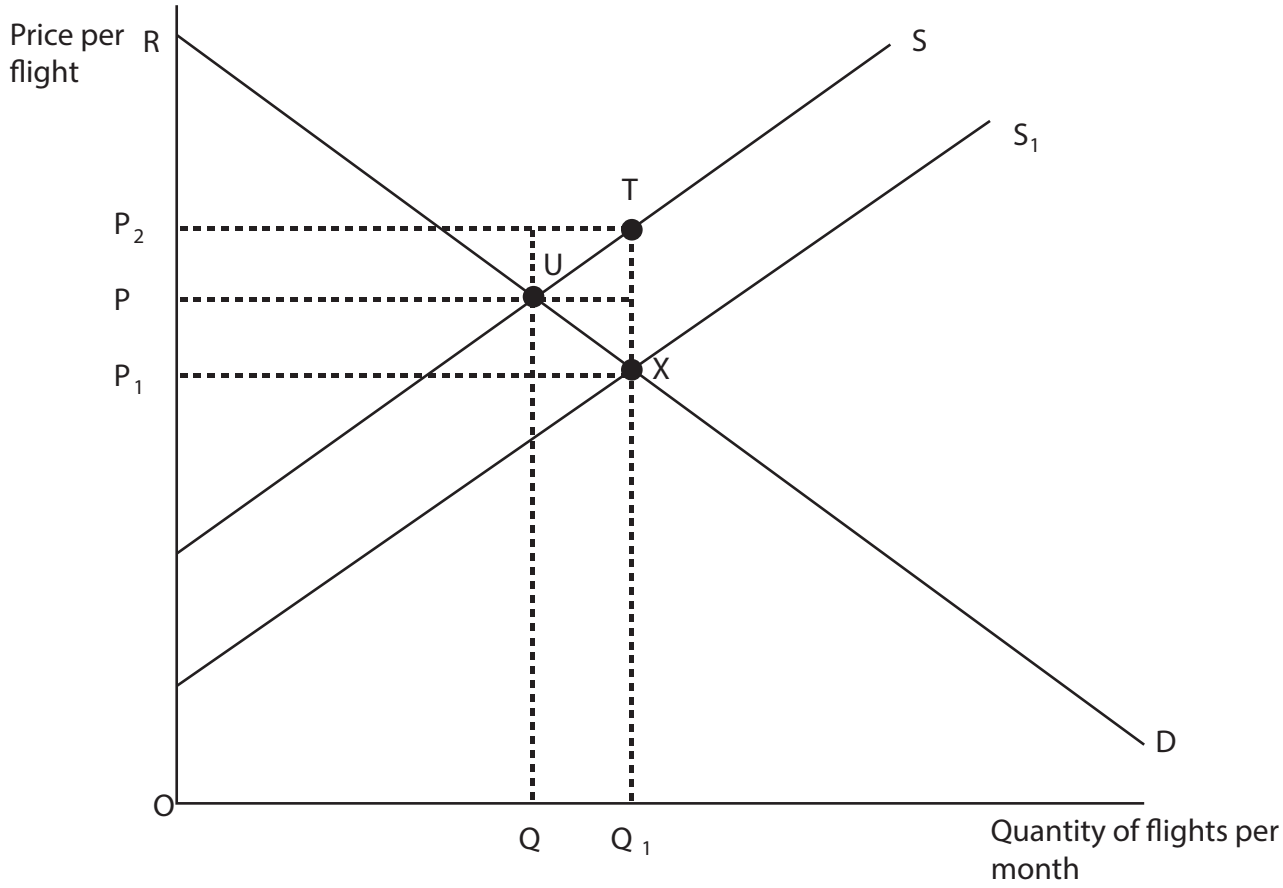
5 In September 2014, the Australian Government introduced a subsidy for airlines that operate domestic routes.

(a) In the diagram below, which area represents the change in consumer surplus after the subsidy was introduced?

(1)



A PRU

B P_1RX

C P_1PUX

D P_1P_2TX

Answer

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(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 (a) Which **one** of the following pairs of products is most likely to have a negative cross elasticity of demand between them?

(1)

A Paint and paint brushes

B Blu-ray movies and movie downloads

C Bus travel and taxi travel

D Desktop computers and laptop computers

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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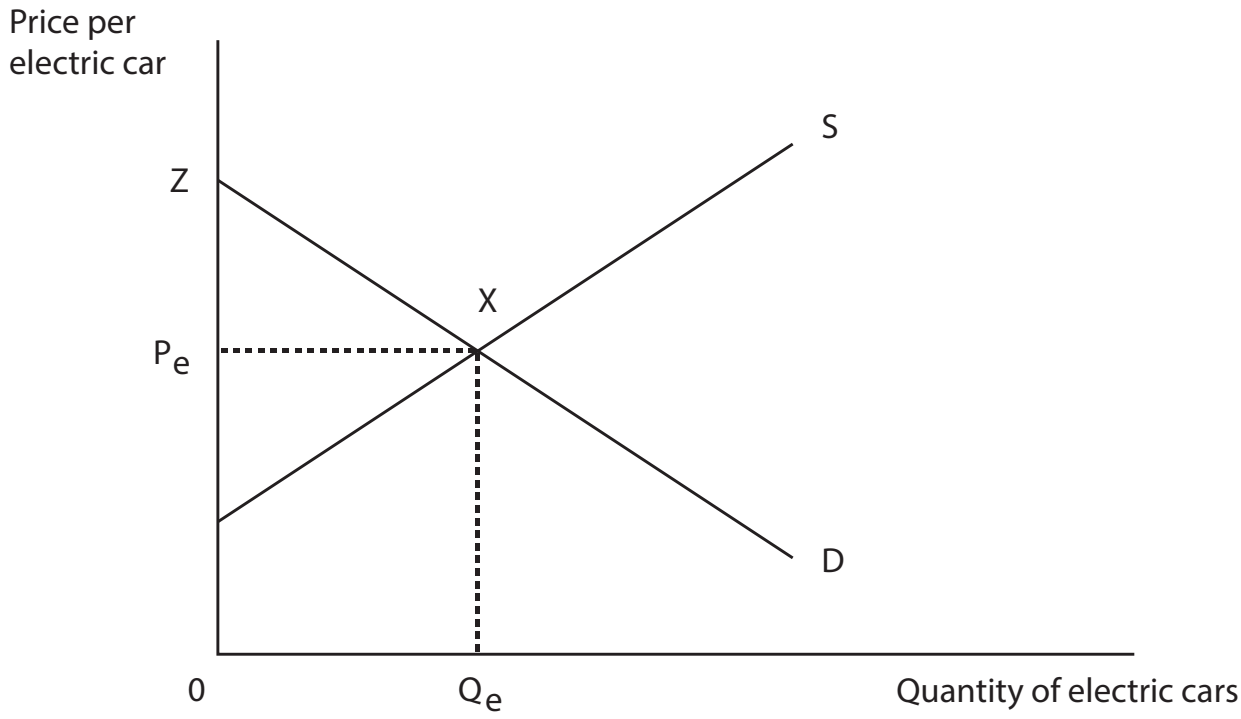
7 The diagram shows the market for electric cars where the initial equilibrium price is P_e and quantity Q_e. (You may annotate the diagram in your answer.)



(a) Researchers have predicted that the cost of a complete lithium-ion battery pack for electric cars could fall from $550 in 2014 to $200 by 2020 and to $160 by 2025. The impact of this change in costs on the market for electric cars would be

(1)

	Price	Producer surplus
A	Rise	Rise
B	Rise	Fall
C	Fall	Fall
D	Fall	Rise

Answer ☐

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) The operation of a buffer stock scheme for maize means that

(1)

A stocks are released when there is a surplus of maize

B the price of maize cannot fall below the ceiling price

C stocks are purchased when there is a surplus of maize

D the price of maize cannot rise above the floor price

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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SECTION B

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 the box ☒ .

Question 10 starts on page 30.

9 UK housing market

Figure 1 UK and regional house prices

	Average house price June 2014
UK	£264 889
England	£276 312
Wales	£166 966
Scotland	£193 059
Northern Ireland	£137 160

Extract 1 House price rises

In June 2014, the annual house price increase in the UK was 10.2%. Prices rose in every region. The rise was largest in London, where average house prices increased by 19.3% over the year. The average house price in London is £499 000.

The increase in house prices has been partly caused by 48 393 buyers taking advantage of the 'Help to Buy' scheme since April 2013. This scheme only requires buyers to provide a 5% deposit when securing a long term loan to pay for a house.

Between April 2014 and June 2014 unemployment in the UK fell by 132 000 to 2.08 million. This boosted consumer confidence and encouraged more people to buy houses.

(Source: adapted from 'Help to Buy boosts prices and profits' by Russel Lynch, Laura Chesters and Ben Chu, 3 September 2014, http://www.independent.co.uk/news/business/news/help-to-buy-boosts-prices-and-profits-9707571.html)

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Extract 2 House builder, Redrow, recruits more staff

With surging demand for houses, the average price of a Redrow property increased by 19% to £269 000. This helped the company earn record profits of £133 million in 2014, a 91% increase on 2013. Consequently, Redrow increased its workforce by 20%, creating 230 jobs for surveyors, planners and marketing experts. The company's expansion may have also created up to 1 150 jobs for its suppliers and contractors.

When the market recovered in 2013, house builders struggled to meet demand because there was a shortage of bricks and bricklayers. Redrow is worried about a long term skills shortage which makes it difficult to increase output. Redrow's Chief Executive said the Government should ensure schools are promoting "fulfilling careers" in the construction industry.

(Source adapted from 'Redrow homebuilder adds 20% more staff as profits nearly double' by Jennifer Rankin, 2 September 2014, http://www.theguardian.com/business/2014/sep/02/redrow-adds-230-staff-profits-double)

Extract 3 More houses in the UK countryside

The Government has been encouraging house builders to increase the supply of housing. By September 2014, nearly 30 000 houses had been built in the countryside despite local opposition. Local authority officials were rejecting applications to build houses but in 72% of cases, these decisions were overturned by the national UK Government. This led to almost 27 000 houses being given planning permission against local authority wishes.

The increase in house building led to a loss of valuable farmland and to a loss in natural habitats for animals. It also led to a significant increase in traffic. However, it has also increased the supply of housing, helped to reduce pressure on prices and reduced overcrowding in city centres.

(Source: adapted from 'Planning rules risking the countryside' by Peter Dominiczak, 7 September 2014 http://www.telegraph.co.uk/earth/countryside/11080751/Planning-rules-risking-the-countryside.html)

(a) With reference to Extract 1, explain possible reasons why 'In June 2014, the annual house price increase in the UK was 10.2%' (Extract 1, line 1). Illustrate your answer with a supply and demand diagram.

(6)

(b) With reference to Extract 2, discuss the possible effects of rising house prices on house builders such as Redrow.

(14)

(c) Examine the likely impact of regional house price differences on the geographical mobility of labour.

(10)

(d) With reference to specific examples from Extract 2, explain the difference between normative statements and positive statements.

(4)

(e) Evaluate the likely economic impact of the construction of more houses in the UK countryside. Illustrate your answer with an appropriate diagram.

(14)

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(a) With reference to Extract 1, explain possible reasons why 'In June 2014, the annual house price increase in the UK was 10.2%' (Extract 1, line 1). Illustrate your answer with a supply and demand diagram.

(6)

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(4)

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(e) Evaluate the likely economic impact of the construction of more houses in the UK countryside. Illustrate your answer with an appropriate diagram.

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(Total for Question 9 = 48 marks)

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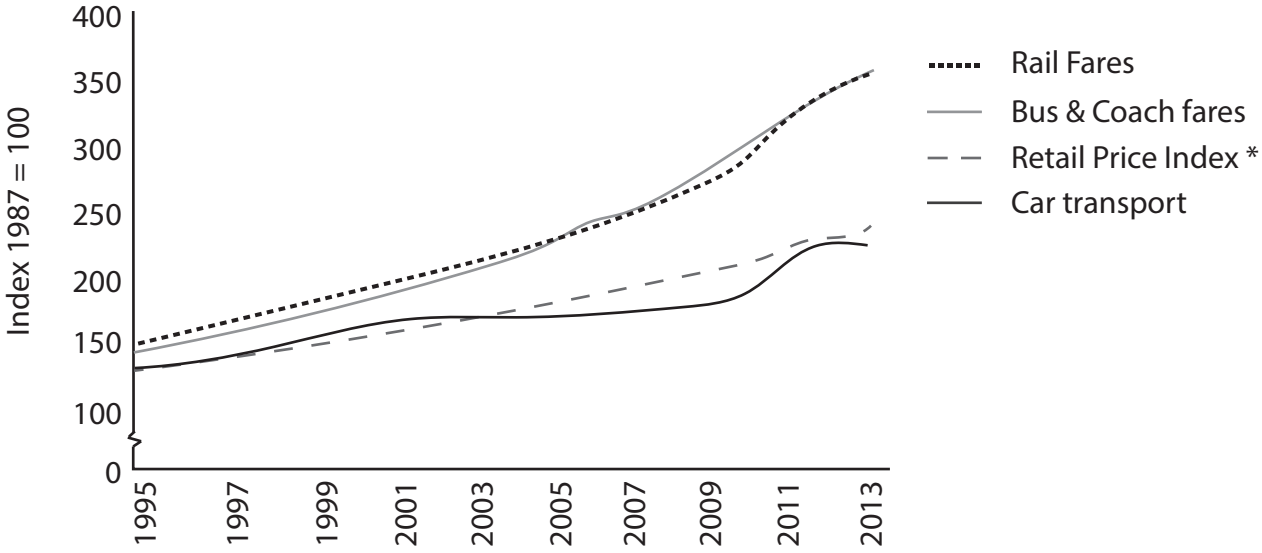
If you answer Question 10 put a cross in the box ☒ .

10 The transport market

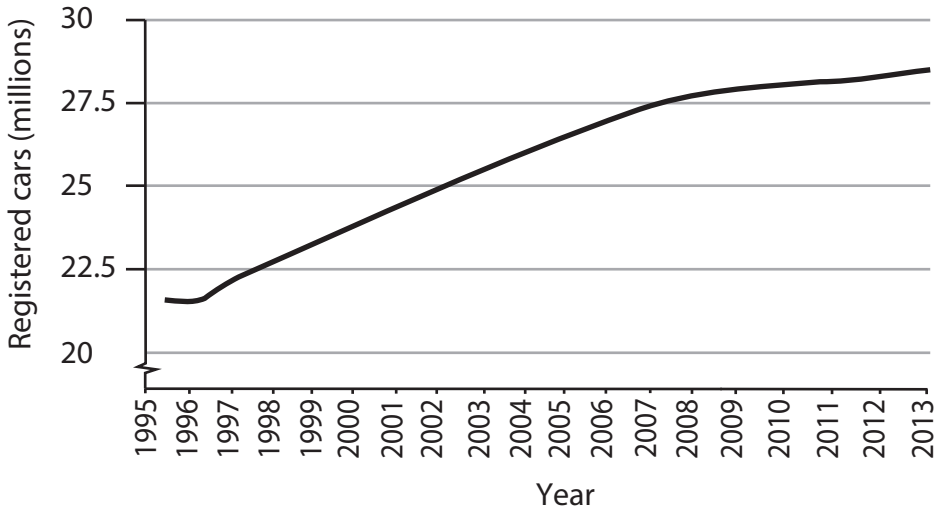
Figure 1 Increase in costs of transport in the UK (1995 – 2013)



* The Retail Price Index measures inflation which measures the overall cost of living

(Source: adapted from https://www.gov.uk/government/statistics/transport-statistics-great-britain-2014)

Figure 2 Number of cars registered in the UK, 1995 – 2013 (millions)



(Source: http://pedestrianliberation.org/tag/motoring-statistics/)

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Figure 3 Average gross weekly earnings and indices of average distance travelled by bus and rail, 1997=100

Year	UK gross weekly earnings	Bus travel in London	Rail travel in the UK
2005	£431.20	160	141
2009	£488.50	168	143
2013	£517.50	168	166

(Sources: https://www.gov.uk/government/statistics/national-travel-survey-2013
http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2013-provisional-results/stb-ashe-statistical-bulletin-2013.html#tab-Earnings-trends)

Extract 1 Benefits of increased rail passenger numbers

According to the World Health Organisation, road accidents kill 1.2 million people globally every year. Road transport is the main source of air pollutants such as nitrogen oxide and carbon monoxide. It also contributes to noise and leads to congestion. As a result, many governments subsidise rail travel in order to reduce road-traffic externalities.

According to Swiss economists, there are benefits of passengers switching from road to rail travel. A 10% increase in rail service frequency reduces road accidents by 4.6%, nitrogen monoxide by 3.8%, nitrogen dioxide by 1.7% and infant mortality rates by 4.6%.

(Source: 'Can passenger railways curb road-traffic externalities? Empirical evidence', by Rafael Lalive, Simon Luechinger, Armin Schmutzler, 15 March 2013, http://www.voxeu.org/article/can-passenger-railways-curb-road-traffic-externalities-empirical-evidence)

Extract 2 Uninsured drivers cost millions

In New Zealand, there was a 25% increase in car crashes caused by uninsured drivers in 2014. This increase in car crashes is costing millions of dollars. Between January and May 2014, AA Insurance handled more than NZ$7.7 million in claims involving 3 000 uninsured drivers.

An insurance expert said, "Uninsured drivers can amass big debts if involved in a crash, and this can have life-changing consequences". One uninsured driver was facing a $41 000 repair bill after crashing into the back of an insured driver's car.

It's estimated that 8.5% of New Zealand's car drivers are uninsured. A driver survey revealed the main reasons that drivers were uninsured was the cost of the insurance, a belief that the car was not worth insuring or the driver was not eligible for cover e.g. because they were convicted of drunk driving.

(Source: 'Crashes caused by uninsured drivers cost country millions,' by Cassandra Mason, 9 September 2014, http://www.nzherald.co.nz/northern-advocate/news/article.cfm?c_id=1503450&objectid=11321139)

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Extract 3 Call for reduction in indirect taxes on fuel

In the UK, 58.7% of the price of diesel fuel is indirect tax, whereas in the USA, it is only 12%. In China, there is no indirect tax on the price of diesel fuel. UK motorists and businesses are paying some of the highest fuel tax rates in the world. This contributed to a 25% reduction in the sale of fuel between March 2013 and March 2014. High taxes affected businesses because diesel fuel is used in the majority of commercial vehicles. This means it costs more to transport products and adds to the prices that consumers have to pay in stores. Businesses are arguing for these indirect fuel taxes to be reduced. However, the UK Government believes that fuel taxes are important in cutting greenhouse gas emissions.

(Source: adapted from 'British businesses and motorists pay one of highest fuel tax rates in the world as petrol sales fall to lowest on record,' by Ray Massey, 6 May 2014, http://www.thisismoney.co.uk/money/cars/article-2621307/British-motorists-pay-highest-fuel-taxes-world.html#ixzz3DrvuCvu9)

(a) With reference to Figure 1 and Figure 2, explain **two** likely reasons for the increase in registered cars on UK roads.

(4)

(b) With reference to Figure 3, explain whether rail travel is a normal good or an inferior good.

(6)

(c) With reference to Extract 1, evaluate the economic effects of passengers switching from road to rail travel.

(14)

(d) Discuss why '8.5% of New Zealand's car drivers are uninsured' (Extract 2, line 8). Use the concept of market failure in your answer.

(10)

(e) With reference to Extract 3, discuss the likely impact of a reduction in indirect diesel fuel taxes on UK businesses and the Government. Illustrate your answer with an appropriate diagram.

(14)

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(a) With reference to Figure 1 and Figure 2, explain **two** likely reasons for the increase in registered cars on UK roads.

(4)

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(b) With reference to Figure 3, explain whether rail travel is a normal good or an inferior good.

(6)

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(d) Discuss why '8.5% of New Zealand's car drivers are uninsured' (Extract 2, line 8).
Use the concept of market failure in your answer.

(10)

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(14)

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TOTAL FOR SECTION B = 48 MARKS

TOTAL FOR PAPER = 80 MARKS

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