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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel International Advanced Level

Time 1 hour 45 minutes

Paper reference **WEC11/01**

Economics

International Advanced Subsidiary
UNIT 1: Markets in action

You must have:
Source Booklet (enclosed)

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** questions in Sections A, B and C.
- Answer **ONE** question in Section D.
- 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.*
- 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.

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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an a r, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 Which **one** of the following is a function of the price mechanism?

☒ **A** An increase in the price of hand sanitisers, caused by an increase in demand, will ration them to those who are most able to pay

☒ **B** A decrease in the price of carrots, caused by excess supply, provides farmers with the incentive to increase supply

☒ **C** A decrease in the price of tinned meat is a signal to producers that demand for it is increasing

☒ **D** An increase in the price of petrol is a signal to the government to impose a maximum price

(Total for Question 1 = 1 mark)

2 A clothing manufacturer originally organised production so that each worker made a garment from start to finish. However, in 2020, the manufacturer introduced the division of labour to garment production.

Which **one** of the following is a likely advantage of introducing the division of labour?

☒ **A** An increase in boredom

☒ **B** An increase in the cost of making each garment

☒ **C** An increase in output per worker

☒ **D** An increase in the time required for training

(Total for Question 2 = 1 mark)

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3 The table shows the estimated income elasticity of demand for four items.

Item	Income elasticity of demand
Caribbean holidays	+2.02
Healthcare	+0.70
Electricity	+0.40
Bus travel	–0.70

Which **one** of the following can be deduced from the table?

☒ **A** Caribbean holidays are an inferior good

☒ **B** Demand for healthcare is income elastic

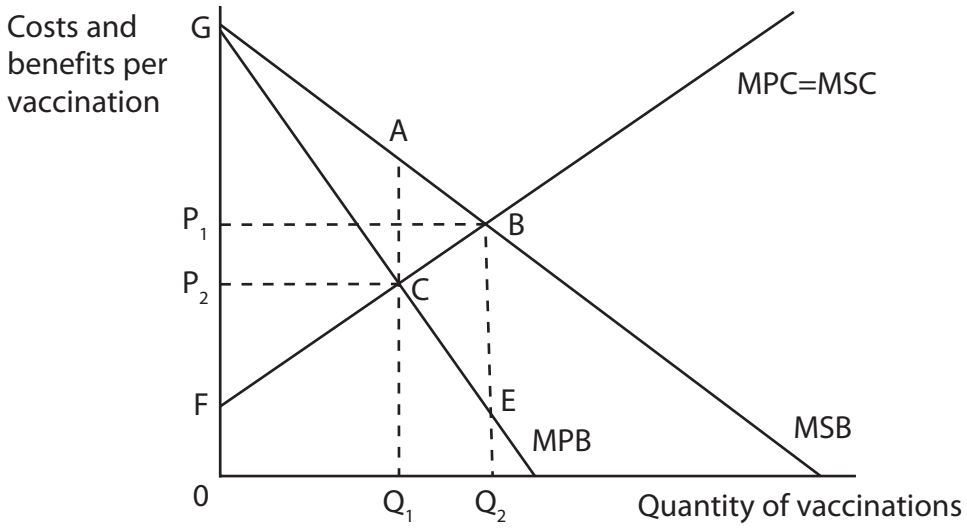
☒ **C** Electricity is a normal good

☒ **D** Demand for bus travel is price inelastic

(Total for Question 3 = 1 mark)

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4 The diagram shows the market for vaccinations against measles.



Which **one** of the following can be deduced from the diagram?

- ☒ **A** The social optimum output is Q_1
- ☒ **B** The market equilibrium output is Q_2
- ☒ **C** Welfare gain is shown by the area BCE
- ☒ **D** Welfare gain is shown by the area ABC

(Total for Question 4 = 1 mark)

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5 The European Union (EU) has a tradeable permit scheme for carbon emissions. The price of a carbon permit was below €5 in 2013 and increased to €25 in 2019.

Which **one** of the following is the most likely reason for the increase in the price of carbon permits?

- ☒ **A** The EU issued too few permits in 2013
- ☒ **B** The EU issued too many permits in 2019
- ☒ **C** The demand for permits decreased between 2013 and 2019
- ☒ **D** The supply of permits was reduced between 2013 and 2019

(Total for Question 5 = 1 mark)

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6 The table shows the total utility received by a consumer from consuming glasses fruit juice.

Glasses of fruit juice	Total utility
1	2
2	5
3	8
4	9
5	7
6	3

Which **one** of the following can be deduced from the table?

☒ **A** Utility is maximised when three glasses of fruit juice are consumed

☒ **B** Diminishing marginal utility sets in with the consumption of the fourth glass of fruit juice

☒ **C** Diminishing marginal utility sets in with the consumption of the fifth glass of fruit juice

☒ **D** Utility is maximised when six glasses of fruit juice are consumed

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B

Answer ALL questions in this section in the spaces provided.

7 In 2020 dairy farmers in India sold milk at a market equilibrium price of Rs20 per litre. This price resulted in many farmers making a loss. Therefore, dairy farmers asked the Indian Government to introduce a minimum price of Rs30 per litre.

Draw a diagram to illustrate the impact of the introduction of a minimum price for milk in India.

(Total for Question 7 = 4 marks)

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8 In 2020 the German city of Munich had the highest risk of a housing market bubb the world. Between 2010 and 2020 the average price of a house more than doubled

With reference to Munich's housing market, explain what is meant by a 'market bubble'.

(Total for Question 8 = 4 marks)

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9 In the USA the price elasticity of demand for residential natural gas is –0.1.

Explain **one** reason why the price elasticity of demand for residential natural gas is only –0.1.

(Total for Question 9 = 4 marks)

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10 The table shows the average world price of sugar and world sugar consumption in 2019 and 2020.

	Average sugar price, per kg	**Quantity of sugar consumed, million kg**
2019	$11.28	172 620
2020	$15.06	171 600

Ceteris paribus, calculate the price elasticity of demand for sugar. Show your workings.

(Total for Question 10 = 4 marks)

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11 The cross elasticity of demand for meat with respect to fish is estimated to be +0. in Bangladesh.

Explain the likely impact of a 10% increase in the price of fish on the demand for meat in Bangladesh.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

Study Figure 1 and Extracts A, B and C in the Source Booklet before answering Qu n 12.

Write your answers in the space provided on the following pages.

12 (a) Define the term 'indirect tax' (Extract B, line 20).

(2)

(b) With reference to the **titles** of Extract A and Extract B, explain the difference between positive statements and normative statements.

(4)

(c) With reference to Figure 1 and Extract A, analyse **two** reasons why between 1 April 2020 and 1 January 2021 the world price of cotton increased.

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Extract B, examine **two** external costs associated with the production of clothing.

(8)

(e) With reference to Extract C, discuss the impact of the removal of the subsidy paid to Indian clothing manufacturers on consumers and manufacturers.

Illustrate your answer with an appropriate diagram.

(14)

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12 (a) Define the term 'indirect tax' (Extract B, line 20).

2)

(b) With reference to the **titles** of Extract A and Extract B, explain the difference between positive statements and normative statements.

(4)

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(c) With reference to Figure 1 and Extract A, analyse **two** reasons why between 1 April 2020 and 1 January 2021 the world price of cotton increased.

Illustrate your answer with a supply and demand diagram.

(6)

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(d) With reference to Extract B, examine **two** external costs associated with the production of clothing.

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(e) With reference to Extract C, discuss the impact of the removal of the subsidy to Indian clothing manufacturers on consumers and manufacturers.

Illustrate your answer with an appropriate diagram.

(14)

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2007 Ireland's Government spending as a percentage of GDP was 35.9% and by 2019 it had fallen to 25.1%.

Evaluate the possible benefits of an economy moving closer to being a 'free market economy'.

(Total for Question 13 = 20 marks)

OR

14 In Australia 50% of consumers are still with the bank they first joined. Banking with one of the 4 largest banks is costing consumers about AUD1 500 per year. In the UK consumers loyal to their broadband supplier pay 12% more than those who switch to better deals.

Evaluate ways that would encourage and enable consumers to make rational decisions.

(Total for Question 14 = 20 marks)

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Indicate which question you are answering by marking a cross in the box ☒. If y hange your mind, put a line through the box ☒ and then indicate your new question with a ss ☒.

Chosen question number: **Question 13** ☒ **Question 14** ☒

Write your answer here:

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TOTAL FOR SECTION D = 20 MARKS

TOTAL FOR PAPER = 80 MARKS

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Time 1 hour 45 minutes

Paper reference **WEC11/0**

Economics

International Advanced Subsidiary
UNIT 1: Markets in action

Source Booklet

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Sources for use with Section C

Cotton and clothing

Figure 1 World price of cotton, $ per lb, April 2020 to January 2021



Extract A World cotton price rises

Between 1 April 2020 and 1 January 2021 the demand for face masks, bedsheets and surgical gowns increased. All require cotton in their production. During the same period there was a reduced cotton crop in Pakistan, the world's fourth largest supplier. High temperatures resulted in a decrease in the amount of cotton produced. Both these factors caused an increase in the price of cotton. 5

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Extract B Clothing manufacturers should reduce environmental costs

Clothing retailers and manufacturers earn $2.4 billion globally and directly employ 75 million people. The clothing industry is the world's third largest manufacturing sector.

The manufacture of clothing involves significant environmental costs. For example, on average, producing one pair of jeans requires 3 781 litres of water and creates 33.4 kg of carbon emissions. This includes the production of the cotton through to the delivery of the final product to stores.

According to the United Nations, each year:

- clothing manufacturers use 93 billion cubic metres of water
- 20% of all wastewater comes from clothes dyeing by manufacturers
- after use, 87% of clothing is burnt or disposed of in landfill
- clothing manufacturers produce 10% of annual global carbon emissions. This is more than all international flights and shipping combined.

Clothing retailers used to have four seasonal clothing ranges per year. However, many clothing stores now offer new ranges weekly. Between 2000 and 2020 the number of clothing items produced yearly increased from 50 billion to 100 billion. In 2019 a person bought, on average, 60% more clothing than in 2000 and more items of clothing are thrown away. Less than 1% of used clothing is recycled into new garments.

In response to the environmental damage caused by the clothing industry, Ireland's Government is considering the introduction of an indirect tax on clothing.

Extract C Indian Government to remove clothing subsidy

India employs 35 million workers in clothing manufacturing. Clothing accounts for 12% of India's exports. To protect this important industry the Indian Government used to pay a subsidy to clothing manufacturers. However, the US Government and the Turkish Government argued that this gave Indian manufacturers an unfair advantage. Consequently the Indian Government removed this subsidy in 2018.

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Acknowledgements

Figure 1 based on data taken from https://markets.businessinsider.com/commodities/cotton-price

Extract A adapted from 'Masks, surgical gowns & export boost the prices of organic cotton', Madhvi Sally, The Economic Times, 9 September 2020, https://economictimes.indiatimes.com/markets/commodities/news/masks-surgical-gowns-export-boost-sales-price-of-organic-cotton/articleshow/78019804.cms

'Pakistan: Cotton area to decrease in 2020/21', Sibylle Michel, Textile Network, 22 June 2020, https://textile-network.com/en/Technical-Textiles/Fasern-Garne/Pakistan-Cotton-area-to-decrease-in-2020-21

Extract B adapted from 'How Much Do Our Wardrobes Cost to the Environment?' The World Bank, 23 September 2019 https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente

Extract C 'India textile export subsidy under WTO scanner', Arun S and Banikinkar Pattanayak, The Indian Express, 3 January 2020, https://indianexpress.com/article/business/economy/india-textile-export-subsidy-under-wto-scanner/