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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Wednesday 8 January 2020

Afternoon (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 answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 Which **one** of the following will cause a movement along the demand curve in the market for rice?

- ☐ **A** An increase in the global population
- ☐ **B** An increase in real incomes
- ☐ **C** A decrease in the price of noodles
- ☐ **D** A decrease in the price of rice

(Total for Question 1 = 1 mark)

2 Which **one** of the following is an advantage of a free market economy?

- ☐ **A** The profit motive gives firms the incentive to be more efficient
- ☐ **B** Public goods may be under-provided by the price mechanism
- ☐ **C** Goods may be over-provided compared with the social optimum level of output
- ☐ **D** Government intervention leads to the correction of market failure

(Total for Question 2 = 1 mark)

3 Which **one** of the following is an example of market failure?

- ☐ **A** Government provision of flood defences that is greater than the social optimum output
- ☐ **B** Doctors prescribe too many medicines because the cost is covered by health insurance
- ☐ **C** Lower prices create an incentive for firms to switch production to more profitable activities
- ☐ **D** Unintended consequences that follow the introduction of an indirect tax

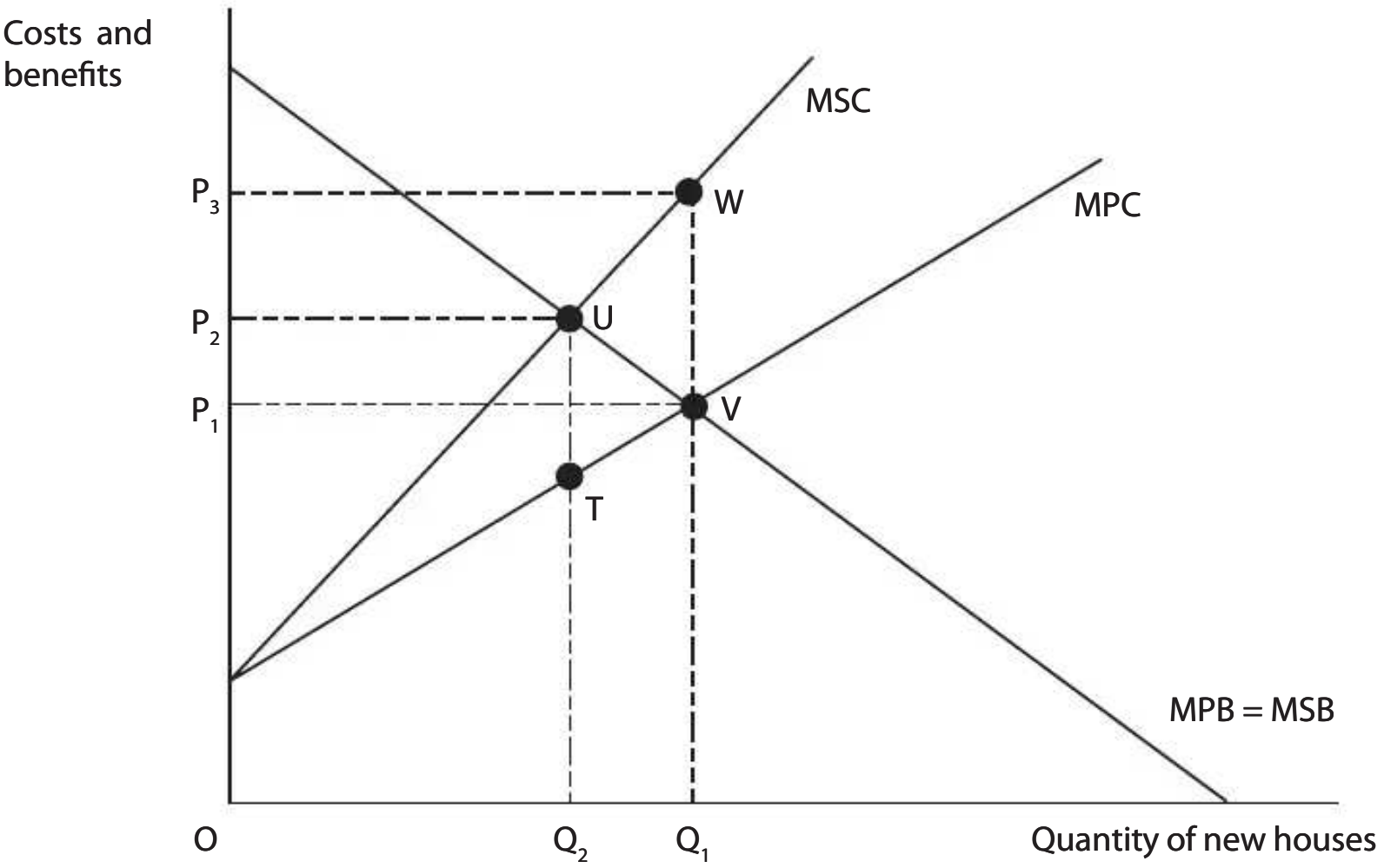
(Total for Question 3 = 1 mark)

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4 The diagram shows the market for new house construction.



The housing construction industry is a major source of pollution.

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 loss is shown by the area UVT
- ☐ **D** Welfare loss is shown by the area UWV

(Total for Question 4 = 1 mark)

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5 The table shows the percentage of electricity generated by different sources for Portugal in 2016.

	%
Coal	22
Gas	22
Hydro	24
Oil	2
Solar	2
Wind	22
Other renewable	6

(Source: https://www.iea.org/countries/Portugal/)

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

☐ **A** Portugal generated 44% of its electricity from non-renewable sources

☐ **B** Portugal generated 50% of its electricity from renewable sources

☐ **C** Portugal generated most of its electricity from renewable sources

☐ **D** Portugal generated most of its electricity from non-renewable sources

(Total for Question 5 = 1 mark)

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6 The table shows the estimated price elasticity of demand for air travel. Short-haul is air travel within the same continent and long-haul is air travel to a different continent.

	Estimates of price elasticity of demand
Short-haul business travellers	-0.70
Long-haul business travellers	-0.27
Short-haul leisure travellers	-1.52
Long-haul leisure travellers	-1.04

(Source: https://www.fin.gc.ca/consultresp/Airtravel/airtravStdy_-eng.asp)

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

☐ **A** An increase in the price of flights for long-haul business travellers will increase total revenue for airlines

☐ **B** An increase in the price of flights for short-haul leisure travellers will increase total revenue for airlines

☐ **C** Long-haul business travellers are more responsive to a change in price than short-haul business travellers

☐ **D** Long-haul leisure travellers are more responsive to a change in price than short-haul leisure travellers

(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 space provided.

7 In 2000 the population of Qatar was 592 267. By 2018 the population had increased to 2 694 849. Most of this growth was caused by immigration.

Draw a diagram to illustrate the impact of this change in Qatar's population on its production possibility frontier.

(Total for Question 7 = 4 marks)

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8 A report identified that Hong Kong is the city with the highest risk of experiencing a housing market bubble. House prices in Hong Kong increased by 10% per year between 2012 and 2018.

With reference to the Hong Kong housing market, explain what is meant by a 'market bubble'.

(Total for Question 8 = 4 marks)

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9 In 2017 the Government of the Philippines imposed a 50% tax on the import of cars with a price above $74 000. Since then the Government has seized smuggled cars. For example, in July 2018, it removed 800 smuggled cars from the market.

Explain why this tax on imported cars is an example of government failure.

(Total for Question 9 = 4 marks)

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10 The table shows the gross weekly income for workers in the UK and the number of visits abroad by UK citizens in 2016 and 2017.

	2016	**2017**
Gross weekly income	£539	£550
Number of visits abroad by UK citizens	70.8 million	72.7 million

(Source: adapted from https://www.ons.gov.uk/ © Crown Copyright)

Based on the data in the table, calculate the income elasticity of demand for visits abroad by UK citizens. Show your workings.

(Total for Question 10 = 4 marks)

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11 In September 2018 the global price of wheat decreased by 3%. This was caused by an increase in supply from the USA.

Explain the likely impact of this fall in price on consumer surplus in the market for wheat. Illustrate your answer with a diagram.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C BEGINS ON THE NEXT PAGE.

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SECTION C

Study Figures 1 and 2 and Extracts A, B and C in the Source Booklet before answering Question 12.

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

12 (a) Define the term 'substitutes' (Extract A, line 8).

(2)

(b) Explain what is meant by the term 'inelastic supply'. Refer to Figure 1 and Extract A in your answer.

(4)

(c) Analyse why the price of vanilla increased significantly between 2014 and 2018. Refer to Figure 2 and Extract A in your answer.

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Extract C, examine two microeconomic effects of Finland's decision to remove the sugar tax.

(8)

(e) Discuss reasons why the 'quantity of education is below the social optimum level' (Extract B, lines 2 and 3). Refer to external benefits in your answer.

Illustrate your answer with an appropriate diagram.

(14)

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12 (a) Define the term 'substitutes' (Extract A, line 8).

(2)

(b) Explain what is meant by the term 'inelastic supply'. Refer to Figure 1 and Extract A in your answer.

(4)

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(c) Analyse why the price of vanilla increased significantly between 2014 and 2018.
Refer to Figure 2 and Extract A in your answer.

Illustrate your answer with a supply and demand diagram.

(6)

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(d) With reference to Extract C, examine two microeconomic effects of Finland's decision to remove the sugar tax.

(8)

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(e) Discuss reasons why the 'quantity of education is below the social optimum level' (Extract B, lines 2 and 3). Refer to external benefits in your answer.

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 BEGINS ON THE NEXT PAGE.

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SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 Adam Smith identified that if workers completed every stage of production individually they would each produce 10 to 20 pins per day. The application of the division of labour in a pin factory enabled ten workers to produce 48 000 pins per day.

Evaluate the advantages of the division of labour in organising production.

(Total for Question 13 = 20 marks)

OR

14 The European Union (EU) operates a tradeable pollution permit scheme which affects 12 000 businesses including energy producers, airlines and the steel industry.

Evaluate the use of tradeable pollution permits to reduce pollution.

(Total for Question 14 = 20 marks)

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

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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Afternoon | Paper Reference **WEC11/01**

Economics

International Advanced Subsidiary

Unit 1: Markets in action

Source Booklet

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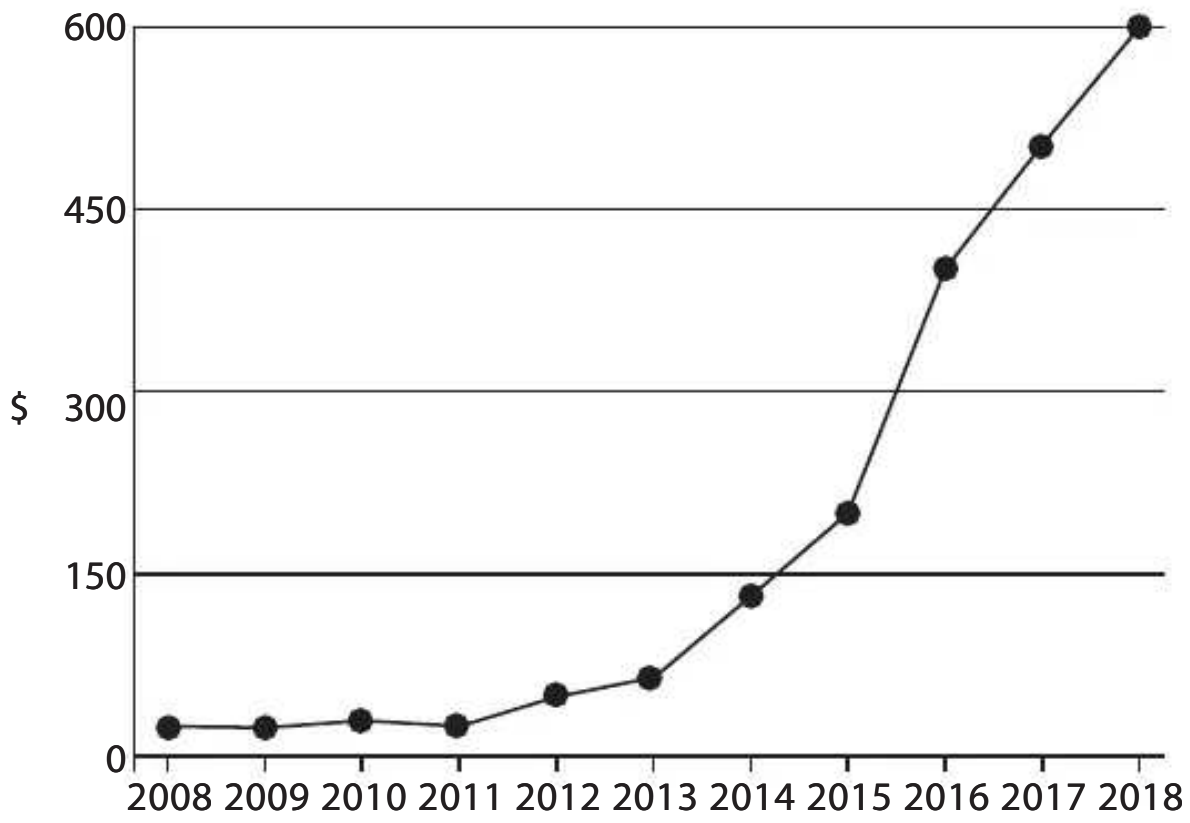
Sources for use with Section C.

The markets for vanilla, education and sugar

Figure 1 Estimated price elasticity of supply for vanilla in Madagascar and Indonesia

	Madagascar	Indonesia
Price elasticity of supply	0.48	0.52

Figure 2 US$ price of vanilla per kilogram, 2008-2018



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Extract A Vanilla price increases

Madagascar grows 80% of the world's vanilla. Few other countries have the climate to be able to grow the crop. Between 2008 and 2011 the price was so low that some vanilla growers stopped production and grew other crops instead. However, the price of vanilla increased significantly between 2014 and 2018.

In 2017 a cyclone in Madagascar destroyed a large quantity of the vanilla crop. As a result some farmers will not see their vanilla crops recover fully until 2020.

There are artificial substitutes for vanilla such as vanillin. However, in recent years, consumers have shown an increased preference for natural vanilla. Vanilla is a key ingredient used in ice cream, sweets, chocolate and in cosmetic products. The demand for all of these products has increased rapidly in recent years.

The high price attracted farmers in other countries, such as Uganda, to start growing vanilla. However, it takes three years for the plantations to mature and produce vanilla crops.

Extract B Lack of education in Madagascar

Adults in Madagascar have typically spent only 4.4 years at school. This quantity of education is below the social optimum level.

In 2012 it was estimated that 20 000 children aged 12 to 17 years old worked in the production of vanilla. This was 32% of the workforce employed in this industry. Many families need their children to work to earn an additional income. They cannot afford to lose this income by sending their children to school. Following the cyclone the price of food in Madagascar rose significantly. This increased the need for children to work.

Many primary schools are in a poor condition and are overcrowded. Teachers have limited or no training. Many schools are destroyed by the annual cyclones and public funds for education have been reduced.

Extract C Sugar tax removed in Finland

In 2011 the Government of Finland introduced an indirect tax known as a sugar tax on sweets, chocolate, ice cream and fizzy drinks. This was charged at €0.95 per kilogram or €0.11 per litre. The tax raised revenue for the government and decreased consumption of these products by approximately 5%.

In 2017 Finland removed the sugar tax. It had been criticised as being unfair. Manufacturers of biscuits and cakes had been unaffected by the tax giving them a competitive advantage over sweet and chocolate manufacturers. The tax revenue that would have been raised was estimated to be €109 million per year.

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Acknowledgements

Figure 1 adapted from Developing Countries In The World Economy, Volume 42 of World Scientific Studies In International Economics, by Jaime de Melo © WSPC - 2015, 2015, World Scientific https://books.google.co.uk/books?id=2mYGCwAAQBAJ&printsec=frontcover&dq=inauthor:%22De+Melo+Jaime%22&hl=en&sa=X&ved=0ahUKEwjV5tK3ueDdAhUrI8AKHWV5AJIQ6AEIMDAB#v=onepage&q&f=false

Figure 2 adapted from https://african-crossing.com/the-demand-for-vanilla/

Extract A adapted from https://agronomag.com/vanilla-price-hits-all-time-record-in-2018/

Extract B adapted from https://www.dol.gov/agencies/ilab/projects/madagascar-vanilla and https://www.unicef.org/madagascar/5559.html

Extract C adapted from http://www.loc.gov/law/foreign-news/article/finland-tax-on chocolate-and-sweets-to-be-eliminated-2017/