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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.

Turn over ▶

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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 statements is a consequence of diminishing marginal utility?

☒ **A** Total utility will rise at a faster rate as more of a product is consumed

☒ **B** The supply curve for a product will slope upwards

☒ **C** The demand curve for a product will slope downwards

☒ **D** Total utility will rise at a constant rate as more of a product is consumed

(Total for Question 1 = 1 mark)

2 The table shows the changes in electricity generation from two sources in selected countries between 2019 and 2020.

	Coal	Solar
Italy	–31%	+12%
India	–20%	+6%
South Korea	–11%	+26%
USA	–40%	+45%

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

☒ **A** The largest percentage decline in the use of the non-renewable resource for electricity generation was in South Korea

☒ **B** The largest percentage increase in the use of the renewable resource for electricity generation was in the USA

☒ **C** In all countries the use of the non-renewable resource for electricity generation increased

☒ **D** In all countries the use of the renewable resource for electricity generation decreased

(Total for Question 2 = 1 mark)

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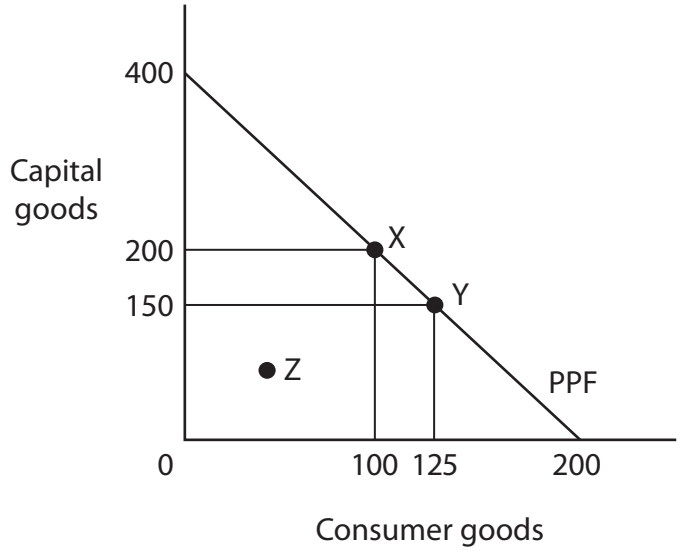
3 In the Netherlands the cross-elasticity of demand for organic meat with respect to a change in the price of non-organic meat is +0.5.

Which **one** of the following can be deduced from this information?

- ☒ **A** Organic meat and non-organic meat are substitutes
- ☒ **B** Organic meat and non-organic meat are normal goods
- ☒ **C** Organic meat and non-organic meat are unrelated goods
- ☒ **D** Organic meat and non-organic meat are complements

(Total for Question 3 = 1 mark)

4 The diagram shows the production possibility frontier for an economy currently operating at point X.



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

- ☒ **A** Point Z is unobtainable when using all available resources
- ☒ **B** Point Y would generate higher economic growth than point X
- ☒ **C** The movement from point X to point Y has an opportunity cost of 50 capital goods
- ☒ **D** The movement from point X to point Y has an opportunity cost of 25 consumer goods

(Total for Question 4 = 1 mark)

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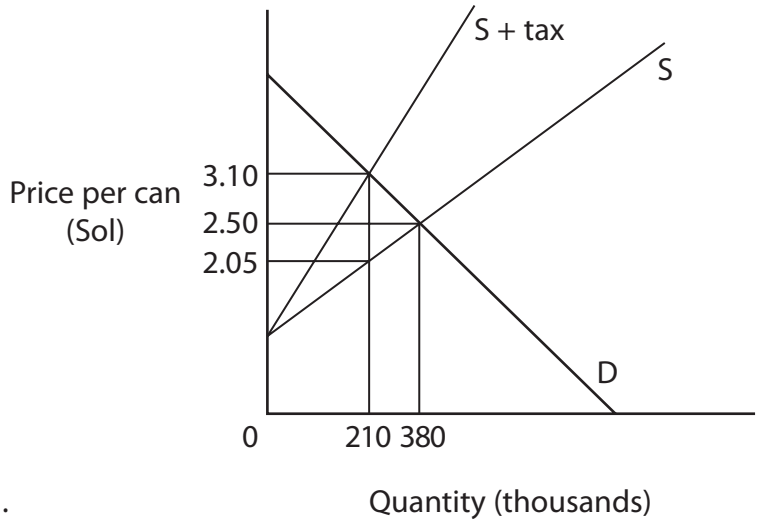
5 In the UK, consumers who remain loyal to their broadband provider pay, on average, an extra £113 per year.

Which **one** of the following is an example of inertia in the broadband market?

- ☒ **A** Consumers remain with their current provider because they cannot calculate the possible savings
- ☒ **B** Consumers remain with their current provider because they do not feel valued
- ☒ **C** Consumers remain with their current provider because they are influenced by the behaviour of their friends and family
- ☒ **D** Consumers remain with their current provider because they believe that the effort required to switch will be too great

(Total for Question 5 = 1 mark)

6 The diagram shows the market for a sugar-sweetened drink in Peru. In 2018 Peru's Government imposed an ad valorem tax on sugar-sweetened drinks.



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Which **one** of the following shows the value of the consumer incidence of the tax?

- ☒ **A** Sol 94 500
- ☒ **B** Sol 126 000
- ☒ **C** Sol 220 500
- ☒ **D** Sol 228 000

(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 the USA the income elasticity of demand for margarine is –0.2. In April 2021 real incomes increased by 15%.

Draw a diagram to illustrate the likely impact of this increase in real incomes on the equilibrium price and quantity of margarine.

(Total for Question 7 = 4 marks)

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8 In 1960 Lake Chad in Central Africa was large enough to provide the local farmers with water to irrigate their crops. However, by 2017 there had been a 90% reduction in the size of the lake. The farmers could no longer use water from the lake for irrigation.

With reference to Lake Chad, explain the difference between a free good and an economic good.

(Total for Question 8 = 4 marks)

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9 Prior to 1920 each worker at Henry Ford's car company would manufacture an entire car from start to finish. In the 1920s the company started to use an assembly line where each worker only completed a particular task.

Explain **one** advantage to a car manufacturer of using the division of labour to organise production.

(Total for Question 9 = 4 marks)

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10 In February 2021, British Gas increased the price of gas by 22%. As a result, the number of British Gas customers decreased by 350 000 to 17 000 000.

Ceteris paribus, calculate the price elasticity of demand for gas from British Gas. Show your workings.

(Total for Question 10 = 4 marks)

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11 Between August 2020 and August 2021 the world price of nectarines decreased from $1.83 to $1.42 per kg. This was caused by a good harvest in Spain, the world's largest producer.

Explain the likely impact of this change in price on consumer surplus in the market for nectarines.

Illustrate your answer with an appropriate diagram.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C

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

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

12 (a) Define the term 'external costs' (Extract C, line 11).

(2)

(b) With reference to the second paragraph of Extract A, explain the phrase 'the supply of semiconductors is inelastic.'

(4)

(c) With reference to Extract A, analyse **two** reasons why semiconductor prices 'increased on average by 20%'.

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Extract B and Figure 1, examine **two** likely effects of excess demand for semiconductors on car manufacturers.

(8)

(e) With reference to Extract C and your own knowledge, discuss the possible microeconomic effects of the subsidies paid to semiconductor manufacturers in the USA.

Illustrate your answer with an appropriate diagram.

(14)

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12 (a) Define the term 'external costs' (Extract C, line 11).

(2)

(b) With reference to the second paragraph of Extract A, explain the phrase 'the supply of semiconductors is inelastic.'

(4)

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(c) With reference to Extract A, analyse **two** reasons why semiconductor prices 'increased on average by 20%'.

Illustrate your answer with a supply and demand diagram.

(6)

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(8)

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(e) With reference to Extract C and your own knowledge, discuss the possible microeconomic effects of the subsidies paid to semiconductor manufacturers in the USA.

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 In 2020 the Fraser Institute identified Hong Kong as being the closest to a free market economy in the world. This was based on Hong Kong's low tax rates, low government spending and the low level of business regulation.

Evaluate the advantages of a free market economy.

(Total for Question 13 = 20 marks)

OR

14 The Government of the United Arab Emirates provides its citizens with free primary and secondary education and free healthcare. In 2020 the Government announced that it would spend $136 million on flood defences and that it will build the world's tallest lighthouse in Dubai.

Evaluate the advantages of state provision of goods and services.

(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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Pearson Edexcel International Advanced Level

Time 1 hour 45 minutes

Paper reference **WEC11/01**

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Economics

International Advanced Subsidiary
UNIT 1: Markets in action

Source Booklet

Do not return this Booklet with the question paper.

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Sources for use with Section C

The semiconductor market

Extract A Semiconductor shortage

Semiconductors are used in a wide range of goods including cars, washing machines and smartphones. In Quarter 1 2021 the price of semiconductors increased on average by 20%. This was partly caused by a rise in the costs of steel and copper that are used in the production of semiconductors. A further cause was the global health crisis that led to a significant increase in the demand for laptops, tablets and smartphones. Semiconductors are essential components of these devices.

The supply of semiconductors is inelastic. Manufacturers of semiconductors were operating at 100% capacity and therefore struggled to respond to the increase in demand. Semiconductor manufacturers tried to increase production but it was not possible to make additional capacity available for a considerable time.

Extract B Excess demand for semiconductors affects car manufacturers

In 2021 the global demand for cars increased following very low sales in 2020. This increased the demand for semiconductors. However, the manufacturers of semiconductors were unable to supply the amount demanded, resulting in excess demand. As a result, many car manufacturers reduced production. For example:

- Volkswagen produced 100 000 fewer cars in the first quarter of 2021
- Car production in Japan decreased by 19% in May 2021
- General Motors (GM) shut down production in July and August 2021.

Some car manufacturers removed features that require semiconductors. For example, GM removed wireless charging features, Renault stopped installing large screens and Nissan removed navigation systems.

The shortage of new cars led to higher prices and many consumers had to buy used cars whose prices increased also. In the USA the average price of used cars doubled in the first 6 months of 2021.

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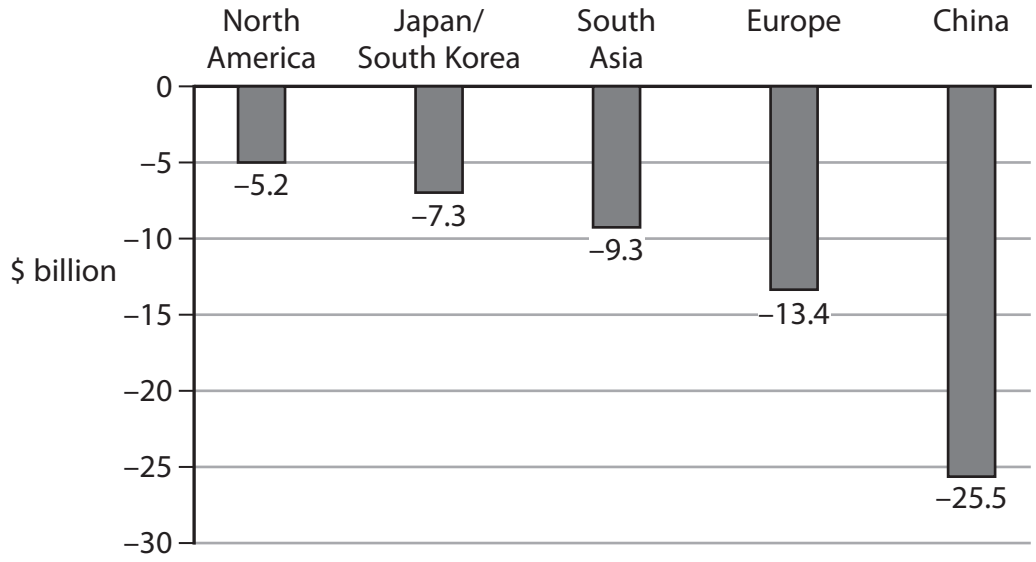
Figure 1 Fall in the revenues of car manufacturers in 2021, $ billion, by region



Extract C Subsidies to semiconductor manufacturers in the USA

In 1990 63% of semiconductors required by manufacturers in the USA were imported. By 2020 this had increased to 88%. Between 2000 and 2020 the US Government made no subsidy payments to semiconductor manufacturers. However, in 2021 it provided subsidies of $52 billion. The US Government wanted to reduce its reliance on importing semiconductors. The subsidies may make it more profitable to produce semiconductors in the USA rather than in Asia, where production costs are lower. It is hoped that the subsidies will result in at least seven new semiconductor factories being built in the USA. However, it typically takes three years before a semiconductor factory is fully operational.

There are concerns that increased production of semiconductors will cause a range of external costs. Production involves acids and toxic gases that may cause cancer. A large amount of water is required to manufacture semiconductors and this creates contaminated waste water.

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Acknowledgements

Extract A adapted from https://uk.expensereduction.com/news/semiconductor-shortage-to-cause-rise-in-prices-in-2021/

Extract B adapted from:

- https://venturebeat.com/2021/06/03/kpmg-car-makers-will-lose-100b-in-2021-due-to-semiconductor-shortage/
- https://www.vox.com/recode/2021/8/5/22611031/chip-shortage-cars-electronics-automakers-gm-tesla-playstation-xbox
- https://www.ft.com/content/e264fd41-7ee9-4fba-be3c-21446298efd9
- https://www.theguardian.com/world/2021/jun/30/global-semiconductor-shortage-affecting-car-production-in-china-and-japan

Figure 1 adapted from https://www.bloomberg.com/news/articles/2021-02-05/chip-shortage-spirals-beyond-cars-to-phones-and-game-consoles

Extract C adapted from:

- https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1566445/#:~:text=According%20to%20industry%20critics%2C%20the,of%20the%20semiconductor%20manufacturing%20process.
- https://www.chinawaterrisk.org/resources/analysis-reviews/8-things-you-should-know-about-water-and-semiconductors/
- https://www.morningbrew.com/emerging-tech/stories/2021/07/23/semiconductorsubsidies-skyrocketed?__cf_chl_jschl_tk__=pmd_0dBSyAJVfAcroXUM3TvX3m9yhJPJWAhTBq8QdFO4jcM-1630184127-0-gqNtZGzNAmWjcnBszQhR