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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

Wednesday 11 October 2023

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.

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 is an example of government failure?

☒ **A** Market forces eliminating excess supply of a product by enabling its price to fall

☒ **B** A market bubble emerging in the value of shares on the stock exchange

☒ **C** The introduction of a tax that causes a decrease in external costs

☒ **D** The introduction of a tax that causes an increase in smuggling

(Total for Question 1 = 1 mark)

2 The table shows the maximum production possibilities for a country in 2021 and 2022.

Year	Consumer goods		Capital goods
2021	220	**OR**	105
2022	195	**OR**	96

Which **one** of the following might have caused this change in the country's production possibilities?

☒ **A** A natural disaster

☒ **B** A rise in the rate of unemployment

☒ **C** An improvement in technology

☒ **D** An increase in the number of immigrants

(Total for Question 2 = 1 mark)

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3 The table shows the estimated price elasticity of demand for different car types in Norway.

Car type	Price elasticity of demand
Diesel	–0.99
Petrol	–1.08
Electric	–1.27

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

☒ **A** Demand for all three car types is price inelastic

☒ **B** Demand for all three car types is price elastic

☒ **C** An increase in the price of diesel cars will result in an increase in the total revenue for diesel car manufacturers

☒ **D** An increase in the price of electric cars will result in an increase in the total revenue for electric car manufacturers

(Total for Question 3 = 1 mark)

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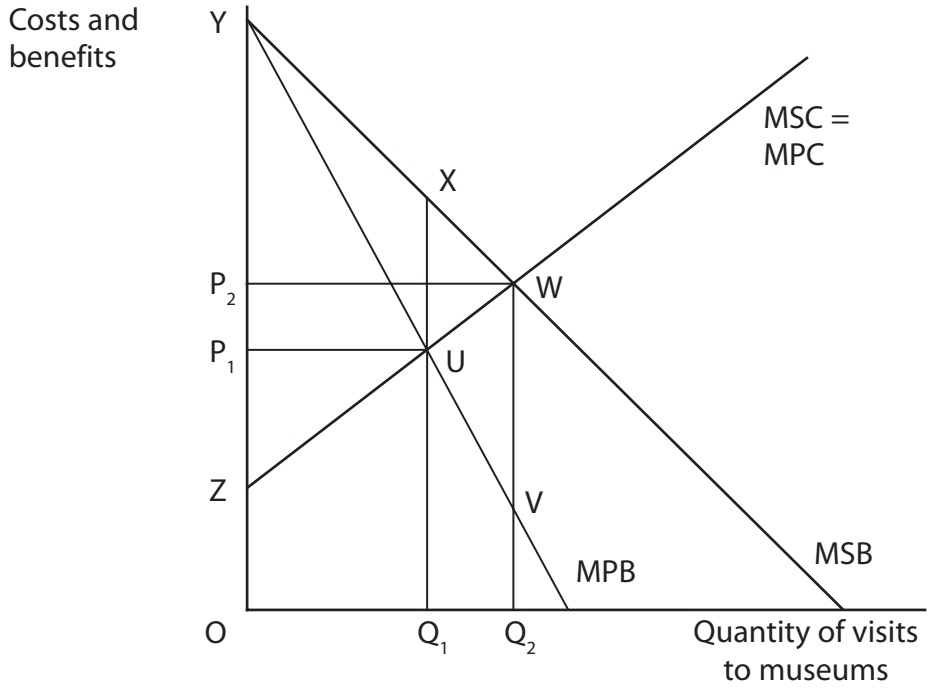
4 The diagram shows the market for museum visits in Spain.



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

- ☒ **A** The market equilibrium quantity is at Q_2
- ☒ **B** The social optimum quantity is at Q_1
- ☒ **C** The welfare gain area would be equal to UVW
- ☒ **D** The welfare gain area would be equal to UWX

(Total for Question 4 = 1 mark)

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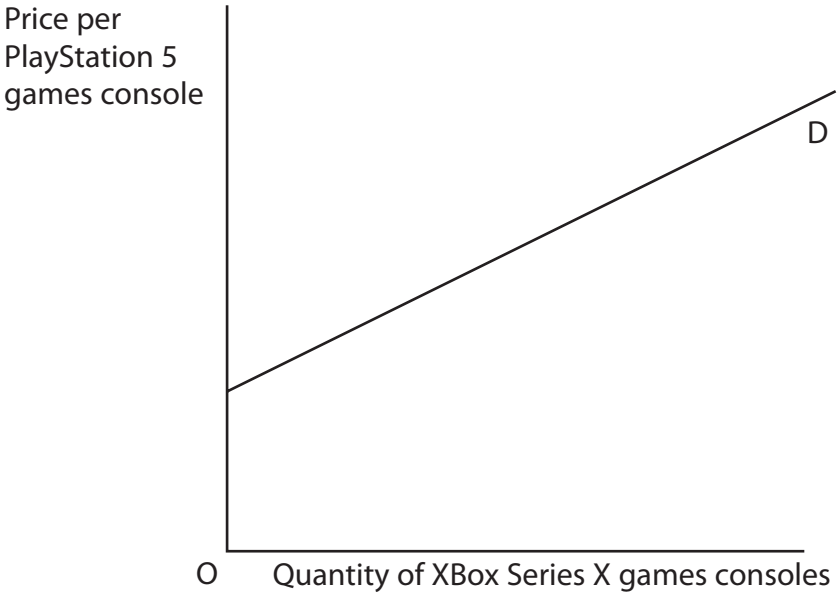
5 Before the global financial crisis of 2008, commercial banks expected that their governments would not allow them to fail because of the threats to the rest of the economy. This meant that some staff at banks took excessive risks when lending and investing.

Which **one** of the following concepts best describes the behaviour of staff at these banks?

- ☒ **A** Inertia
- ☒ **B** The free-rider problem
- ☒ **C** Moral hazard
- ☒ **D** Market bubble

(Total for Question 5 = 1 mark)

6 The diagram illustrates the relationship between the price of PlayStation 5 games consoles and the quantity demanded of Xbox Series X games consoles.



Which **one** of the following can be deduced from the diagram about the relationship between PlayStation 5 games consoles and Xbox Series X games consoles?

- ☒ **A** They are substitutes
- ☒ **B** They are complements
- ☒ **C** They are unrelated goods
- ☒ **D** They are inferior goods

(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 Laos consumers' real incomes decreased by 12.32% during 2021. The income elasticity of demand for a domestic holiday was +1.36.

Draw a diagram to illustrate the likely impact of this change in consumers' real incomes on the equilibrium price and quantity for domestic holidays in Laos.

(Total for Question 7 = 4 marks)

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8 In the USA 96 million consumers have never switched banks. 39% of consumers had accounts at the same bank as their parents. 13% of consumers said that the process of switching involved too much time and effort.

With reference to switching banks, explain the difference between 'herding' and 'inertia'.

(Total for Question 8 = 4 marks)

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9 In Thailand 10% of household income was saved during 2022.

In October 2022 banks in Thailand made loans to the private sector amounting to THB 4 809 billion.

With reference to Thailand, explain **one** role of financial markets.

(Total for Question 9 = 4 marks)

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10 The table shows the average world price of cocoa per metric tonne and the quantity supplied globally in 2020 and 2021.

Year	Average world price of cocoa per metric tonne	Quantity of cocoa supplied, metric tonnes
2020	$ 2 131	4 741 000
2021	$ 2 770	5 242 000

Ceteris paribus, calculate the price elasticity of supply for cocoa. Show your working.

Total for Question 10 = 4 marks)

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11 In January 2022 Vietnam's Government introduced an indirect tax on online sales. This was charged at 10% on all online transactions.

Explain the impact of the introduction of this indirect tax on the market for paperback books sold online in Vietnam.

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 Figure 1 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 'tradeable pollution permit scheme'. (Extract B, line 16)

(2)

(b) With reference to Extract B, explain whether the supply of phosphate rock is likely to be price elastic or price inelastic.

(4)

(c) With reference to Figure 1 and Extract A, analyse **one** demand factor *and* **one** supply factor that caused the price of fertiliser to increase between January 2021 and April 2022.

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Extract C, examine **two** likely effects of the subsidies paid by Canada's Government to farmers who use more organic farming methods.

(8)

(e) With reference to Extract B, discuss the external costs associated with the production and the use of fertiliser.

Illustrate your answer with an appropriate diagram.

(14)

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12 (a) Define the term 'tradeable pollution permit scheme'. (Extract B, line 16)

(2)

(b) With reference to Extract B, explain whether the supply of phosphate rock is likely to be price elastic or price inelastic.

(4)

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(c) With reference to Figure 1 and Extract A, analyse **one** demand factor *and* **one** supply factor that caused the price of fertiliser to increase between January 2021 and April 2022.

Illustrate your answer with a supply and demand diagram.

(6)

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(d) With reference to Extract C, examine **two** likely effects of the subsidies paid by Canada's Government to farmers who use more organic farming methods.

(8)

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(e) With reference to Extract B, discuss the external costs associated with the production and the use of fertiliser.

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 the UK the maximum price for a unit of electricity for domestic consumers was £0.28 per kilowatt hour in September 2022. This was increased by the Government to £0.34 per kilowatt hour in October 2022.

Evaluate the microeconomic effects of an increase in the maximum price of electricity.

(Total for Question 13 = 20 marks)

OR

14 Many consumers do not buy travel insurance before going on holiday abroad, despite the likely substantial costs if they need medical care.
Many car drivers do not provide complete and accurate information to car insurance companies when insuring their cars.

Evaluate the microeconomic effects of imperfect information on insurance markets.

(Total for Question 14 = 20 marks)

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

Wednesday 11 October 2023

Afternoon (Time: 1 hour 45 minutes)

Paper reference **WEC11/01**

Economics

International Advanced Subsidiary
UNIT 1: Markets in Action

Source Booklet
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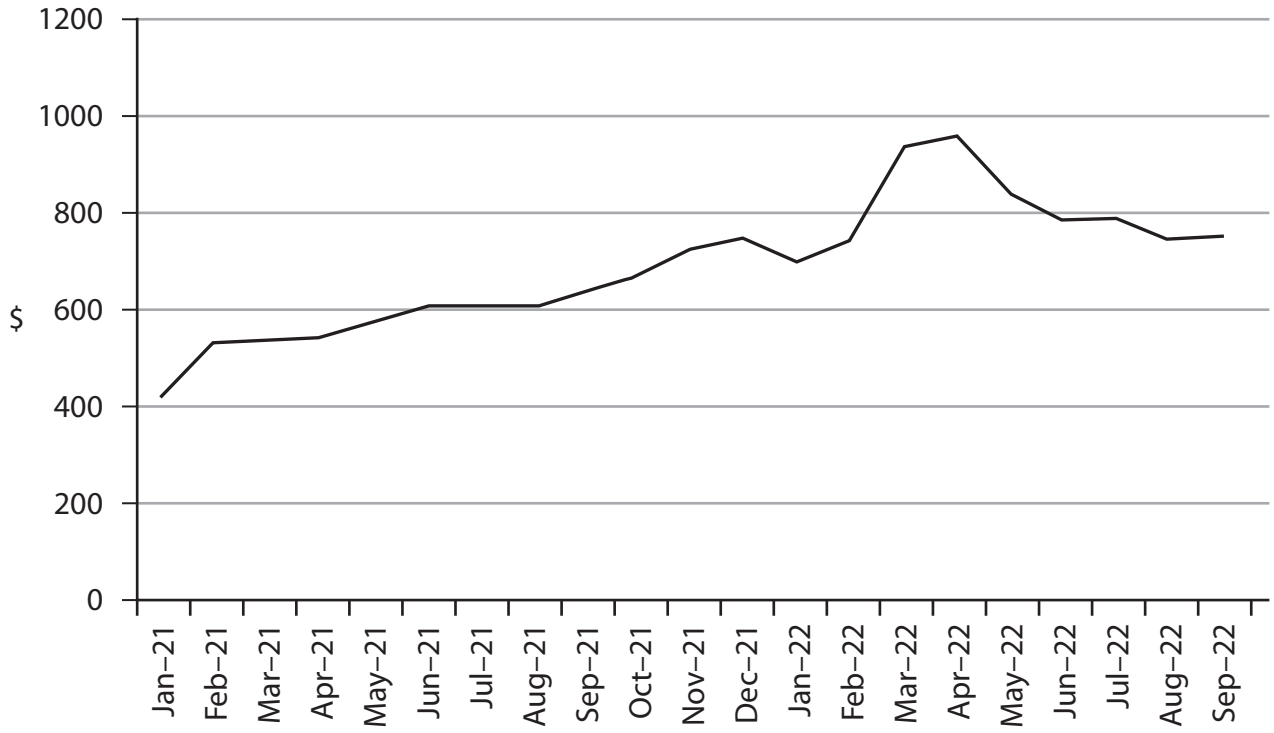
Sources for use with Section C

The market for fertiliser

Figure 1 World price of fertiliser, $ per tonne, January 2021 to September 2022



Extract A Demand and supply

Higher crop prices in 2021 provided an incentive for farmers to increase the quantity of crops that they grew. As a result, the demand for fertiliser increased by 6.3% compared with 2020.

Another reason for the increase in demand for fertiliser was that governments paid subsidies to farmers during the global health crisis. These subsidies encouraged farmers to grow more crops.

Poor weather caused some factories that manufacture fertiliser to shut down for several weeks. For example, winter storms and Hurricane Ida disrupted production in the USA. Costs of production also rose as a result of a significant increase in the world price of gas.

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Extract B Fertiliser production and its use

Between 1960 and 2019 there was a ten-fold increase in the use of fertiliser by farmers to increase agricultural output. Over the same period crop production increased four-fold. Fertiliser is produced by applying acids to phosphate rock. Phosphate rock is a finite resource and the amount available is decreasing. In addition, the production of fertiliser requires the substantial use of non-renewable resources such as gas and coal. This results in greenhouse gas emissions. Consequently, fertiliser production is responsible for 1% of total global energy use and 1.4% of total carbon emissions.

The fertilisers that are used on farmland are often washed into rivers and lakes. This causes algae to develop and oxygen levels to decrease, resulting in a decline in fish stocks.

85% of the world's supply of phosphate rock comes from just five countries. Morocco produces 70% of total production.

France and Germany are the largest fertiliser manufacturers in the European Union. The European Union's tradeable pollution permit scheme applies to fertiliser manufacturers in these countries.

Extract C Subsidies in Canada

Since 1990 the production and use of fertilisers have accounted for approximately 10% of Canada's greenhouse gas emissions. To reach its 2030 greenhouse gas emissions target, Canada needs to reduce its use of fertiliser. Canada's Government is providing subsidies of CA$ 750 million to farmers over 10 years to use more organic farming methods to achieve this target.

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Acknowledgements

Figure 1 adapted from:
https://www.indexmundi.com/commodities/?commodity=dap-fertilizer&months=60

Extract A adapted from:
https://www.fertilizer.org/news/why-are-fertilizer-prices-so-high/

https://www.theguardian.com/business/2022/mar/08/surge-in-fertiliser-prices-adds-to-pressure-on-uk-farmers

Extract B adapted from:
https://www.carbonbrief.org/qa-what-does-the-worlds-reliance-on-fertilisers-mean-for-climate-change/#:~:text=The%20global%20production%20of%20fertilisers,non-CO2%20greenhouse%20gas%20emissions.

Extract C adapted from:
'Government seeks guidance on path towards reducing emissions associated with fertiliser', Agriculture and Agri-Food Canada, 3 April 2022, https://www.canada.ca/en/agriculture-agri-food/news/2022/03/government-seeks-guidance-on-path-towards-reducing-emissions-associated-with-fertilizer.html