GradeMax

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Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 1: Markets in Action

Monday 9 October 2017 – Afternoon
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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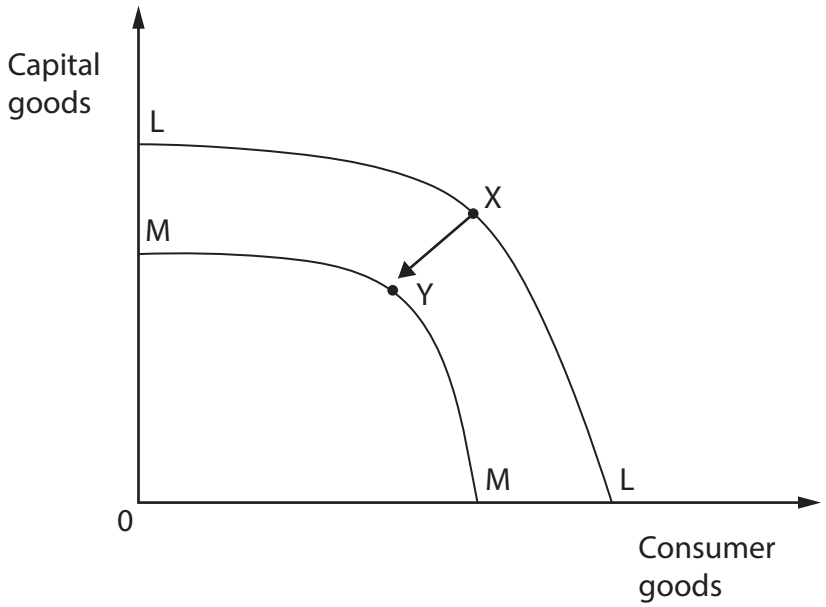
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SECTION A

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



(a) The diagram shows an inward shift of the production possibility frontier from LL to MM. The most likely cause of the movement from point X to point Y is

(1)

A immigration of labour from another country

B the discovery of new technology that improves the production process

C an earthquake that destroys factories and machines

D the economy redistributing resources from consumer to capital goods

Answer ☐

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(b) Explanation

(3)

(Total for Question 1 = 4 marks)

2 (a) One disadvantage of a free market economy is that

(1)

A government intervention creates a net welfare loss

B goods can be over-provided compared with the socially optimal level of output

C the profit motive gives firms the incentive to be more efficient with scarce resources in order to cut costs

D firms produce goods in response to consumer needs and wants to maximise profit

Answer ☐

(b) Explanation

(3)

(Total for Question 2 = 4 marks)

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3 The estimates for income elasticity of demand for tobacco in four countries are shown below.

Country	Income elasticity of demand for tobacco
Egypt	1.60
China	0.90
Poland	0.43
Bangladesh	0.23

(Source: http://www.who.int/tobacco/economics/2_2estimatingpriceincomeelasticities.pdf)

(a) From the table it can be deduced that a 10% increase in incomes in these countries would

(1)

A decrease quantity demanded of tobacco by 16% in Egypt

B increase quantity demanded of tobacco by 9% in China

C decrease quantity demanded of tobacco by 4.3% in Poland

D increase quantity demanded of tobacco by 23% in Bangladesh

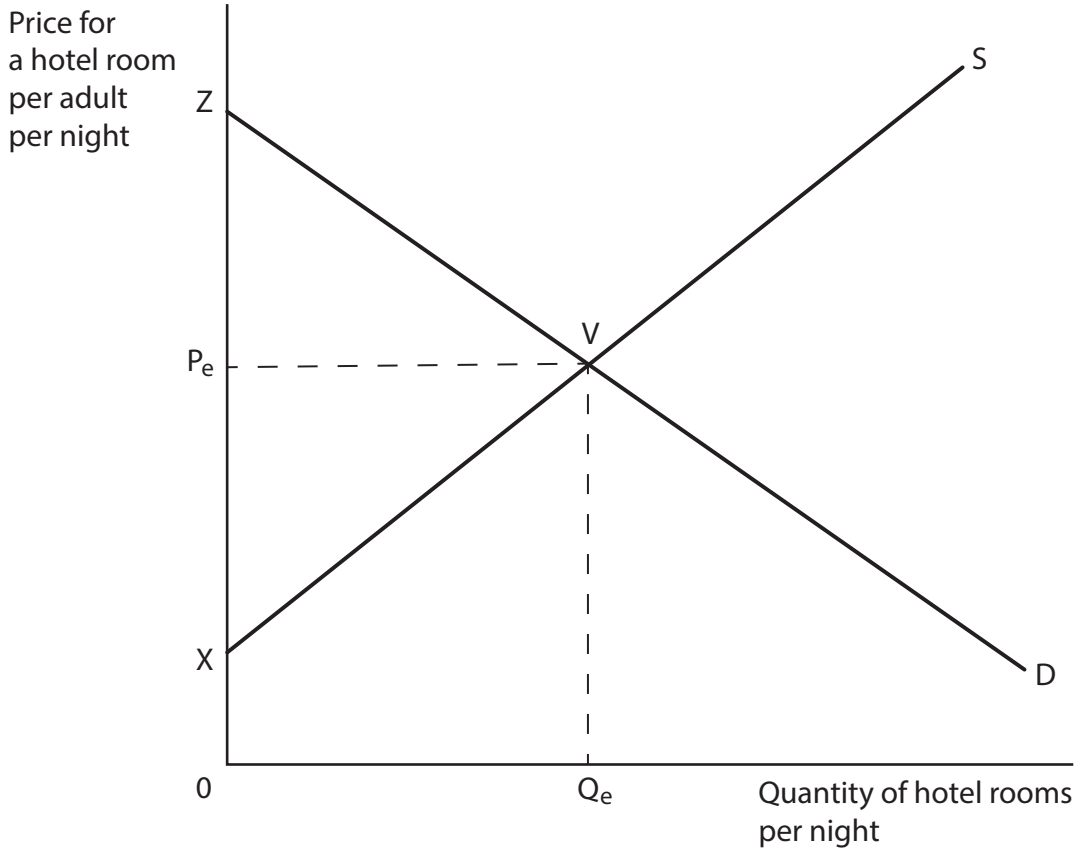
Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

4 The diagram shows the market for hotel rooms on some Spanish islands before the introduction of a tourism tax. The initial equilibrium price is P_e and quantity Q_e.



(a) Spain introduced an indirect tax on tourists to help fund environmental protection. As a result, each adult guest pays an additional €2 per night when staying in a hotel on the islands of Mallorca, Menorca and Ibiza. The effect of this indirect tax is

(1)

	Consumer surplus	**Producer surplus**
A	Fall	Fall
B	Fall	Rise
C	Rise	Fall
D	Rise	Rise

Answer ☐

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(b) Explanation

(3)

(Total for Question 4 = 4 marks)

5 (a) The Chinese Government has built three lighthouses in the South China Sea. The reason the Government built these lighthouses is that

(1)

A it wants to increase external costs

B the price mechanism allocates resources efficiently

C government failure results in a net welfare loss

D there would be under-provision in a free market economy

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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6 (a) Which one of the following pairs of goods is most likely to have a positive cross elasticity of demand?

(1)

A Motor vehicles and petrol

B Bus journeys and taxi journeys

C Potatoes and aeroplanes

D Pens and paper

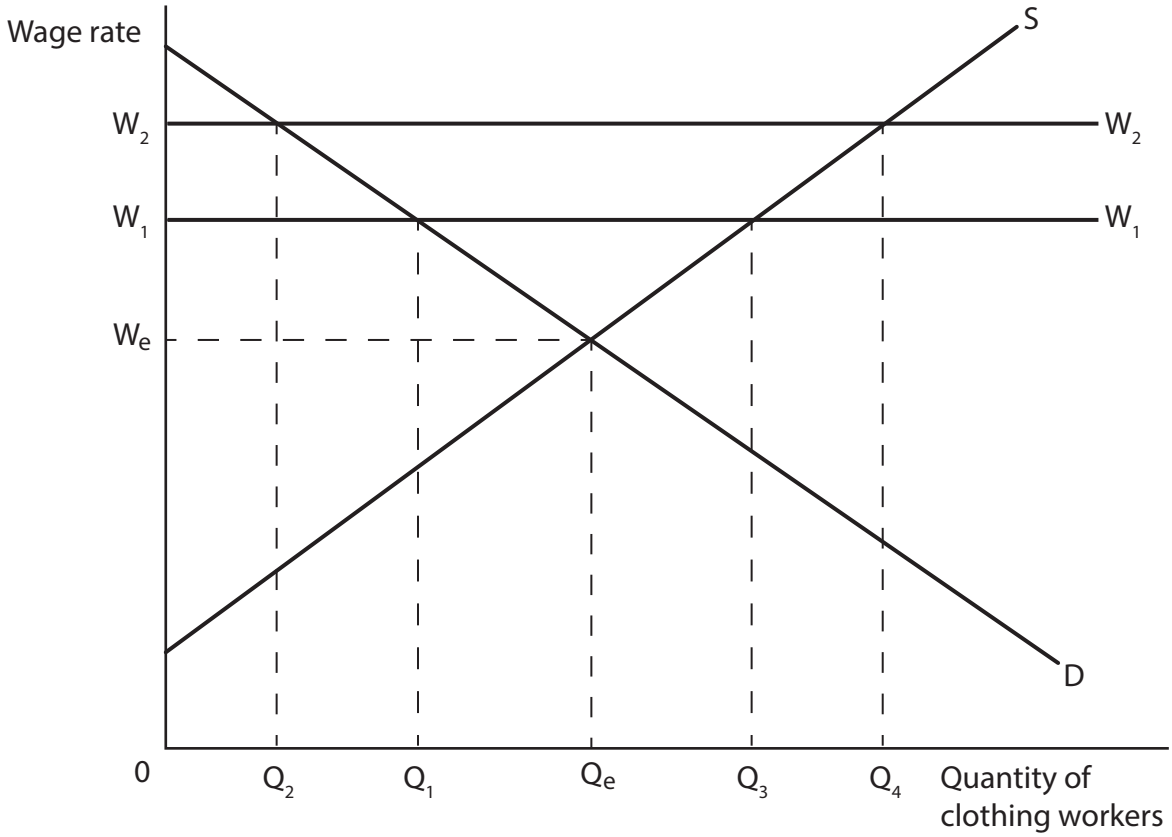
Answer ☐

(b) Explanation

(3)

(Total for Question 6 = 4 marks)

7 The diagram shows the labour market for clothing workers in Cambodia. In 2015 the legal minimum wage was W_1.



(a) In 2016 the Cambodian Government increased the minimum wage for clothing workers by 9.4% to $140 per month. The increase in the minimum wage for clothing workers will cause

(1)

A excess demand for labour

B an increase in the demand for labour

C an increase in employment

D an increase in unemployment

Answer

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(b) Explanation

(3)

(Total for Question 7 = 4 marks)

8 (a) Agricultural stabilisation policies might result in government failure if

(1)

A there are excessive administrative and storage costs

B surpluses and shortages are eliminated

C the market prices of agricultural products are stabilised

D maintaining a stable price encourages investment in the agricultural sector

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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QUESTION 9 BEGINS ON THE NEXT PAGE.

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 26.

9 Cinemas and films

Extract 1 New Zealand film industry

In 2014 there was an increase in demand for making films in New Zealand. This has led to an increase in the revenue earned by the New Zealand film industry to $3.2 billion. The films create an interest in the country and help to attract tourists.

The Lord of the Rings and Hobbit films were produced in New Zealand and a significant number of tourists then travelled to the country to visit the locations from the films. Many of these tourists come from the UK and USA. However, other factors were also important in boosting tourism demand such as rising real incomes.

Increased visitor numbers may also come at a cost. Being a remote country most people have to fly to New Zealand, which could damage the environment. Rising tourist numbers could damage areas of natural beauty.

(Source: adapted from 'Film Tourism' August 3 2016, http://www tourismnewzealand.com/markets-stats/sectors/film-tourism/)

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Extract 2 Multiplex cinema prices are unfair to Indian consumers

Cinemas with several screens are called multiplex cinemas. In Karnataka, India, a proposed local government policy is recommending a reduction in the price of multiplex cinema tickets. The recommendation is to introduce a maximum price of 120 Rupees (Rs).

Currently customers have to spend Rs300 for a multiplex cinema ticket at weekends. With such high prices multiplexes in Karnataka are often well below 50% capacity. The maximum price may generate additional revenues for multiplex owners and keep the cinemas busy even during otherwise quiet times.

A group of experts is recommending subsidies of Rs5 000 000 for those building a new cinema and Rs2 500 000 for renovating an old cinema. It is hoped that the subsidy will encourage an increase in the number of cinemas and that increased competition will help to reduce the price of tickets. Currently, only high income earners can afford tickets but lower prices should encourage more people on lower incomes to visit multiplex cinemas.

The Government is keen to support the Indian film industry as it plays an important part in the Indian economy. Bollywood is one of the largest film producers in India and produced 252 films in 2014. The total number of Indian films produced was 1 969. Bollywood is one of the biggest employers in the film industry and generated revenues of Rs35 billion in 2014.

(Source: adapted from 'Karnataka: Multiplex film tickets may get cheaper, draft policy recommends price to be capped at Rs. 120' Kalyani Pandey, August 24 2016, http://www.ibtimes.co.in/karnataka-multiplex-film-tickets-may-get-cheaper-draft-policy-recommends-price-be-capped-rs-120-691025)

(a) Explain the likely impact of an 'increase in demand for making films in New Zealand' (Extract 1, line 2) on the wages of actors in New Zealand. Illustrate your answer with an appropriate diagram.

(6)

(b) With reference to the title of Extract 1 **and** to the title of Extract 2, briefly explain what is meant by positive economic statements and normative economic statements.

(4)

(c) With reference to Extract 1 and your own knowledge, discuss the external benefits of film production in New Zealand.

(10)

(d) With reference to Extract 2, evaluate the likely impact of the introduction of a maximum price on the market for multiplex cinema tickets.

(14)

(e) With reference to Extract 2, evaluate the likely economic effects of the Government subsidising the building and renovation of cinemas. Illustrate your answer with an appropriate diagram.

(14)

(a) Explain the likely impact of an 'increase in demand for making films in New Zealand' (Extract 1, line 2) on the wages of actors in New Zealand. Illustrate your answer with an appropriate diagram.

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(14)

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(Total for Question 9 = 48 marks)

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

10 Food markets

Extract 1 Poor potato harvest

In 2016 potato farmers in the Netherlands had their crop affected by a wet spring and hot, dry weather during the growing season which led to a poor harvest. Potato prices in the shops increased by up to 40%. Flooded fields and the discovery of a rare disease affecting potatoes destroyed much of the potato crop. 5

(Source: adapted from 'Poor potato harvest could drive Dutch farmers out of business', September 12 2016, http://www.dutchnews.nl/news/archives/2016/09/95362-2/)

Extract 2 Global food crisis caused shift towards junk food

Between 2007 and 2011 the increase in the price of foods like maize, rice and wheat saw consumers in developing countries such as Kenya, Bolivia, Indonesia and Pakistan switch to processed junk food alternatives. Many became addicted and continued to buy junk food even when prices of maize, rice and wheat fell. 5

Processed junk foods are often high in sugars, fats and salt, which can lead to obesity and other health problems leading to increased costs for the health services. Businesses may also suffer because worker absence rates increase.

(Source: adapted from 'Global food crisis triggered cultural shift towards junk food, say researchers,' John Vidal, 9 September 2016, https://www.theguardian.com/global-development/2016/sep/09/global-food-crisis-cultural-shift-junk-food-researchers-oxfam-ids)

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Figure 1 Annual percentage change in hourly real wages for agricultural workers in the USA, 2010 to 2015



(Source: http://www.dutchnews.nl/news/archives/2016/09/95362-2/)

Extract 3 USA struggling to find enough agricultural workers

The supply of agricultural workers in the USA has fallen, leading to an increase in real wages of 5% to $11.33 per hour in 2015. The shortage of labour has reduced annual fruit and vegetable production by 9.5%, valued at $3.1 billion. Generally the work is low skilled so it should be an occupation most unemployed could access.

On the Biringer Farm in Washington, 25% of the strawberry and raspberry crop was left to rot in the field in 2015 because the owners could not find enough workers. At the same time unemployment in Washington was 5.8%.

In 2016, the farm offered a 20% increase in wages and advertised widely but only found 60 of the 100 employees it needed on harvest days.

In previous years a large supply of labour migrated from Mexico for employment. However, in 2015 there was a reduction in the number of migrants from Mexico. Farmers believe that the US Government's crackdown on illegal immigration is reducing the supply of labour.

A stronger US economy is making it easier for people to find less exhausting work, often in areas with cheaper housing costs. In an industry notorious for poor working conditions, farm companies are offering higher wages, improved housing and enhanced medical benefits.

(Source: adapted from 'On U.S. Farms, Fewer Hands for the Harvest', Ilan Brat, August 12, 2015, http://www.wsj.com/articles/on-u-s-farms-fewer-hands-for-the-harvest-1439371802)

(a) Explain why, in the Netherlands 'Potato prices in the shops increased by up to 40%.' (Extract 1, lines 3 and 4) in 2016. Illustrate your answer with a supply and demand diagram.

(6)

(b) With reference to Extract 2, explain whether the demand for junk food is likely to be price elastic or price inelastic.

(4)

(c) With reference to Extract 2, assess the economic effects of an increase in the consumption of 'junk food'. Refer to external costs in your answer.

(10)

(d) With reference to Figure 1 and Extract 3, examine the causes of the 5% increase in agricultural workers' wages in 2015.

(14)

(e) With reference to Extract 3, discuss **two** measures, other than higher wage rates, that could be taken by the US Government or employers to increase the supply of agricultural workers.

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(6)

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(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS

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