GradeMax

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Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Economics

International Advanced Subsidiary
Unit 1: Markets in Action

Monday 14 May 2018 – Morning
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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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) Which one of the following roles is the state most likely to undertake in a mixed economy?

(1)

A Imposing indirect taxes to discourage consumption of goods with external benefits

B Providing subsidies to encourage production of goods with external costs

C Imposing a maximum price to ensure prices do not fall below it

D Provide goods with the characteristics of non-excludability and non-rivalry

Answer ☐

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(b) Explanation

(3)

(Total for Question 1 = 4 marks)

2 The table shows Germany's total electricity generation for 2006 and 2016.

	2006	**2016**
Hydro	4.3%	2.9%
Biomass	3.0%	3.7%
Wind	16.9%	25.0%
Solar	2.4%	20.7%
Oil	4.5%	2.2%
Natural gas	17.4%	14.6%
Coal	35.0%	25.4%
Other non-renewable resources	16.5%	5.5%

(Source: adapted from https://www.cleanenergywire.org/factsheets/germanys-energy-consumption-and-power-mix-charts)

(a) Which of the following can be deduced from this data?

(1)

A The proportion of electricity generated from non-renewable resources increased between 2006 and 2016

B The proportion of electricity generated from renewable resources increased between 2006 and 2016

C The proportion of electricity generated from each type of renewable resource increased between 2006 and 2016

D The proportion of electricity generated from all types of non-renewable resources increased between 2006 and 2016

Answer ☐

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(b) Explanation

(3)

(Total for Question 2 = 4 marks)

3 (a) Which one of the following is a function of money?

(1)

A To enable consumers to minimise utility

B To reduce the division of labour

C To act as a medium of exchange

D To make consumers feel valued

Answer ☐

(b) Explanation

(3)

(Total for Question 3 = 4 marks)

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QUESTION 4 BEGINS ON THE NEXT PAGE.

4 The table shows estimates of income elasticity of demand and price elasticity of demand for selected food types in India.

Food type	Income elasticity of demand	Price elasticity of demand
Rice	0.02	-0.25
Milk	0.43	-0.62
Fruit	0.36	-0.60
Vegetables	0.26	-0.52

(Source: http://ageconsearch.umn.edu/bitstream/109408/2/1-P-Kumar.pdf)

(a) Which one of the following can be deduced from the data?

(1)

A Fruit is a normal good and demand for fruit is relatively price elastic

B All food types are inferior goods and demand for them is relatively price inelastic

C Vegetables have the most income inelastic demand and demand for them is relatively price inelastic

D Milk is a normal good and the demand for milk is the most responsive to a change in price

Answer ☐

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(b) Explanation

(3)

(Total for Question 4 = 4 marks)

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5 It has been calculated that if consumers of electricity in Australia switched suppliers they could save more than AUD$600 per year. Yet most consumers do not switch to other electricity providers.

(a) Which one of the following explains why many consumers do not switch?

(1)

A Consumers exhibit habitual behaviour

B Consumers are good at computation

C Consumers have perfect knowledge of the market

D Consumers do not feel valued by current electricity suppliers

Answer ☐

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

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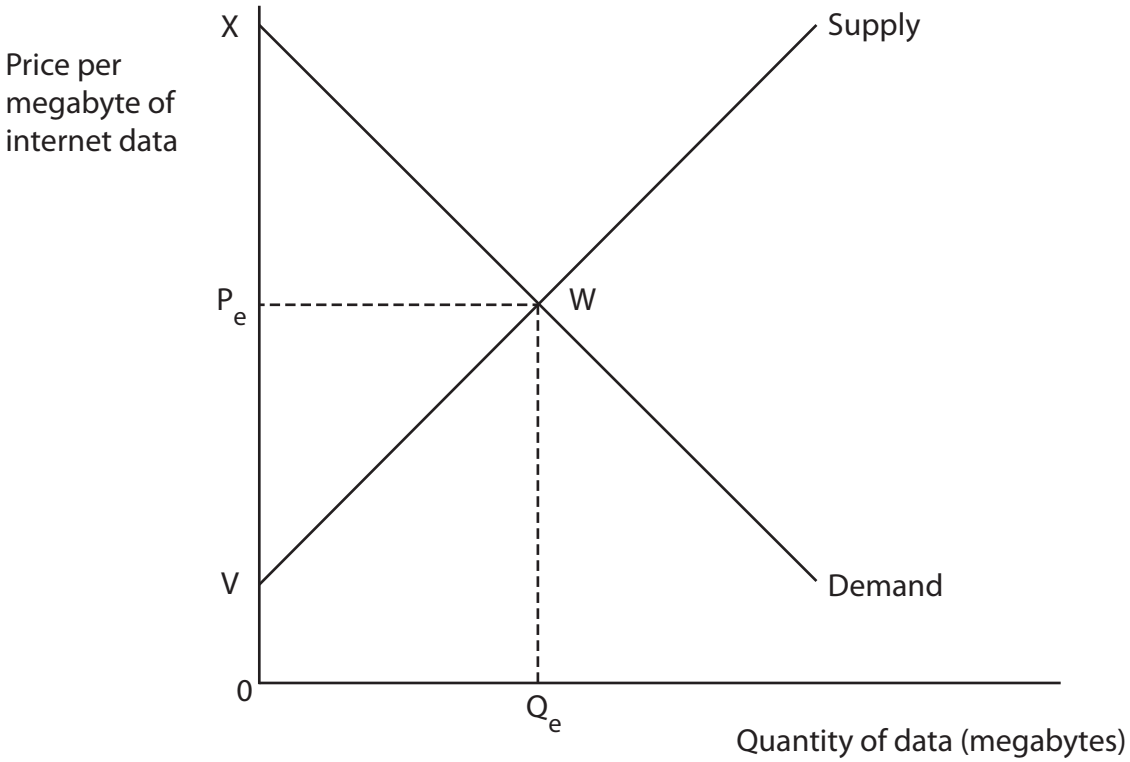
QUESTION 6 BEGINS ON THE NEXT PAGE.

6 The diagram shows the market for internet data in Nigeria. The current price is P_e and quantity Q_e.



In December 2016 the Nigerian Government decided to impose a minimum price above the market price of P_e.

(a) Which one of the following can be deduced?

(1)

A The minimum price will lead to no change in consumer surplus

B The minimum price will lead to a rise in consumer surplus

C There will be excess demand and consumer surplus will fall

D There will be excess supply and consumer surplus will fall

Answer ☐

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(b) Explanation

(3)

(Total for Question 6 = 4 marks)

7 The Chinese Government plans to introduce a tradable pollution permit scheme to reduce carbon emissions.

(a) Which one of the following would limit the effectiveness of this scheme?

(1)

A The Chinese Government supplying significantly more permits than required

B Firms reducing emissions and being able to make profit from selling permits

C Firms purchasing permits when they emit too much carbon

D The Chinese Government issuing fines when firms pollute above their allocation

Answer ☐

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

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8 (a) Which one of the following is an example of how imperfect information can result in market failure?

(1)

A Where inertia causes consumers to make irrational choices when purchasing insurance

B Where consumers free ride in consuming light from lighthouses without paying the owners

C Where employees are unaware of the financial needs they will have in retirement

D Where government intervention to reduce cigarette consumption leads to smuggling

Answer ☐

(b) Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

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 30.

9 Fruit juice and sugar tax

Extract 1 The price of orange juice concentrate increases

Orange juice concentrate is made by squeezing juice from fresh oranges and then removing the water content. This enables the juice to be exported more cheaply. The water can then be added by the manufacturer in the country that imports the orange juice concentrate.

The price of orange juice concentrate increased by 21% between June and September 2016 to more than $4 per kilo, the highest price since 2006.

In 2016, the Brazilian orange harvest decreased by 20%, and in Florida, USA, the harvest decreased by 25%. Brazil and Florida are the largest producers in the world.

Both orange harvests were affected by a tree-killing bug and heavy rains that left oranges with a low sugar content. Therefore it required more fruit to make one kilo of concentrate.

The price of concentrate is likely to remain high because several years of poor harvests mean stocks of frozen juice are running out. Brazilian farmers have been switching to more profitable crops such as sugar cane.

Brazil grows several varieties of orange enabling crops to be harvested in eight months of the year between June and January. In Florida harvesting only tends to take place for three months between October and December.

(Source: adapted from 'Rude awakening as price of coffee and orange juice shoots up 20%', Sarah Butler, 30 September 2016, https://www.theguardian.com/business/2016/sep/30/rude-awakening-as-price-of-coffee-and-orange-juice-shoots-up-20)

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Extract 2 Orange production damages the environment

To grow orange trees most farmers use chemical fertilisers which have contributed to soil erosion and polluted the water supply. Orange trees also require 62.7 litres of water to grow one orange. This compares to 15 litres for one tomato and 1.8 litres for one strawberry. In California the use of so much water in orange production during a four-year drought led to a deterioration in soil quality.

(Source: adapted from 'Chart shows how some of your favorite foods could be making California's drought worse' Erin Brodwin and Samantha Lee, April 8 2015, http://uk.businessinsider.com/amount-of-water-needed-to-grow-one-almond-orange-tomato-2015-4)

Extract 3 The sugar tax in the UK

The UK Government is to introduce a sugar tax on sugary drinks. Consuming too much sugar can cause obesity which increases the risk of cancer. As a result of trends in obesity there could be around 700 000 additional cases of cancer in the UK by 2035. A sugar tax could reduce the number of people suffering from obesity by 3.7 million by 2025.

The aim of the tax is to provide an incentive to the soft drinks industry to reduce the sugar content of drinks.

Soft drinks containing between 5 and 8 grams of sugar per 100 millilitres will be taxed at a standard rate. A higher level of tax will apply to drinks that contain more than 8 grams of sugar.

The tax focuses on soft drinks with added sugar, such as fizzy drinks. Drinks containing milk or yoghurt will not be affected because they provide more nutrients.

Drinks manufacturers, including Lucozade and Ribena, are committed to lowering the amount of sugar and expanding their ranges of low and zero sugar drinks before the tax comes into effect.

The tax is expected to raise £500 million a year which the Government will spend on school sports.

(Source: adapted from 'The sugar tax: a sweet stocking filler?' 5 December 2016, Jack Birch, http://scienceblog.cancerresearchuk.org/2016/12/05/the-sugar-tax-a-sweet-stocking-filler/)

(a) Explain why 'the price of orange juice concentrate increased by 21% between June and September 2016' (Extract 1, lines 6–7). Illustrate your answer with a supply and demand diagram.

(6)

(b) With reference to the information provided, explain the likely impact of the rise in the price of orange juice concentrate on the producers of bottled water.

(4)

(c) With reference to Extract 1, discuss whether the supply of orange juice concentrate is likely to be price elastic or price inelastic.

(10)

(d) With reference to Extract 2, evaluate the external costs associated with the production of oranges. Illustrate your answer with an externalities diagram.

(14)

(e) With reference to Extract 3, evaluate the impact of the introduction of an indirect tax on sugary drinks in the UK. Refer to producers, consumers and the Government in your answer.

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QUESTION 10 BEGINS ON THE NEXT PAGE.

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

10 Labour markets

Extract 1 Canada's agricultural labour market

Agricultural production normally takes place in rural locations. The problem is that rural populations are declining and ageing. People living in urban areas are unwilling to travel to rural locations where agricultural work is located. Agriculture needs seasonal workers and these workers often have to come from other countries.

The number of people seeking employment in Canada's agricultural sector is falling. In 2014, 59 200 vacancies were unfilled and by 2025 the number is estimated to be 113 800. As a result of this labour shortage, the wages of agricultural workers have increased. However, many Canadians are reluctant to work in the sector. Agricultural work is physically challenging with long hours. In 2015, agricultural employees worked on average 44.8 hours per week, compared to an average of 35.9 hours for all other sectors. The shortage of workers reduces fruit and vegetable production leading to wastage of crops left in the fields.

(Source: adapted from 'Canada's farm labour crunch won't be fixed by higher wages', Kelsey Johnson, 1 December 2016, http://ipolitics.ca/2016/12/01/higher-wages-machinery-not-likely-to-fix-agricultures-labour-crunch/)

Extract 2 Eighteen states in the USA increase their minimum wage

The biggest arguments against increasing the minimum wage are that it causes higher unemployment and increases costs of production. Employers will either pass higher costs onto customers by raising prices or invest in labour-saving equipment.

A research institute in the USA analysed the effect of raising the minimum wage above $7.25 in 18 states. It found that the higher minimum wage contributed to substantial increases in average wages for workers in low-wage jobs, helping to reverse a trend in falling real wages. This occurred without any impact on employment levels or hours worked.

(Source: adapted from 'What Happened When 18 States Raised Their Minimum Wage?' Tanvi Misra, 12 December 2016, http://www.citylab.com/work/2016/12/as-an-anti-poverty-measure-raising-the-minimum-wage-works/510119/)

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Extract 3 UK food manufacturing affected by exit from the European Union (EU)

In the UK citizens from other EU countries make up 31% of workers in the manufacture of food products.

EU citizens can move freely and work in any other EU country. In June 2016 the UK voted to leave the EU. Workers from the EU were allowed to continue to work in the UK for the two years whilst the UK Government agrees the terms of its exit. In the future, EU workers already in the UK may not be able to remain. UK food manufacturers have experienced difficulty in recruiting suitably skilled and well-motivated UK workers. Consequently, the supply of labour in food manufacturing could fall significantly following the UK's exit from the EU.

However, greater automation could help employers to cope with the loss of migrant workers. Instead of using EU labour they could replace workers with machines. However, this would require significant investment.

(Source: adapted from 'Brexit: the industries that will be hit hardest if EU migrants are forced to leave the UK', 4 July 2016, Hazel Sheffield, Independent http://www.independent.co.uk/news/business/news/brexit-latest-immigration-migrants-freedom-of-movement-labour-industries-trade-hit-hardest-a7118856.html)

Extract 4 Relocation subsidies within Australia

The Australian Government offers subsidies to encourage job seekers to relocate for work. Job seekers who are eligible can receive payments of up to AUD$3 000 if moving to a capital city or AUD$6 000 if moving to a regional area. They can also receive an extra AUD$3 000 if relocating with children. The new location must be at least 90 minutes away from where the job seeker currently lives. If the move is between capital cities, the new location must have a higher unemployment rate than where the job seeker currently lives.

(Source: adapted from https://www.employment.gov.au/relocation-assistance-take-job)

(a) Explain why 'the wages of agricultural workers have increased' (Extract 1, lines 8–9). Illustrate your answer with a labour market supply and demand diagram.

(6)

(b) With reference to the information provided, explain what is meant by the term *geographical immobility of labour*.

(4)

(c) With reference to Extract 2, evaluate the impact of an increase in the minimum wage rate. Illustrate your answer with an appropriate diagram.

(14)

(d) With reference to Extract 3, evaluate the likely impact of the UK's exit from the EU on the labour market in the UK food manufacturing industry.

(14)

(e) With reference to Extract 4, discuss the likely effects of relocation subsidies on the mobility of labour within Australia.

(10)

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(a) Explain why 'the wages of agricultural workers have increased' (Extract 1, lines 8–9). Illustrate your answer with a labour market supply and demand diagram.

(6)

(b) With reference to the information provided, explain what is meant by the term *geographical immobility of labour*.

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(e) With reference to Extract 4, discuss the likely effects of relocation subsidies on the mobility of labour within Australia.

(10)

(Total for Question 10 = 48 marks)

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

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