GradeMax

Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | Candidate Number

Tuesday 8 January 2019

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.

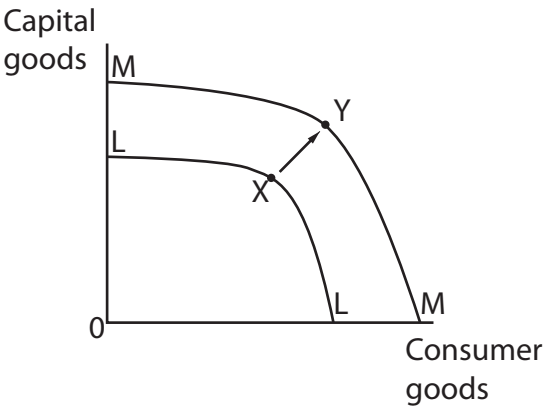
Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 The diagrams show the production possibility frontiers for Singapore's economy. It is operating at point X on the production possibility frontier LL.

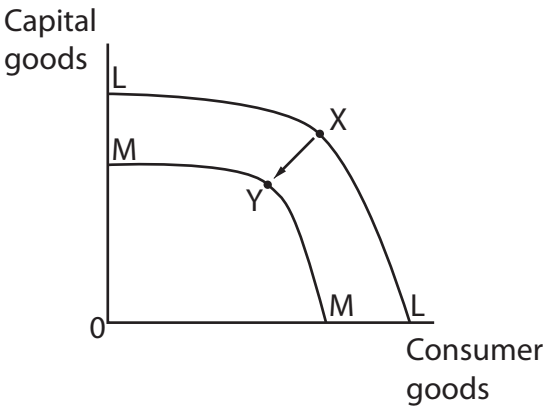
Singapore's population is expected to increase by 90 000 next year.

In which **one** of the diagrams does the movement from X to Y illustrate this expected increase in population if the economy still operates at its maximum productive potential?

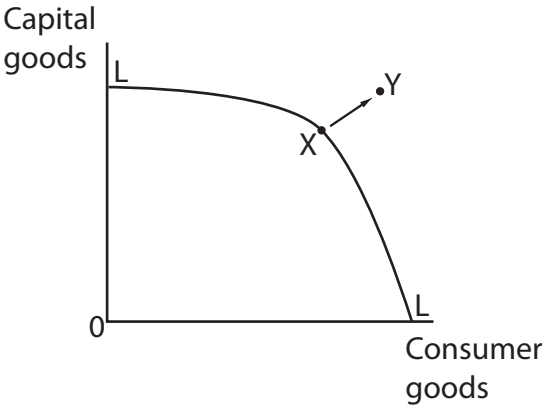
☒ **A**



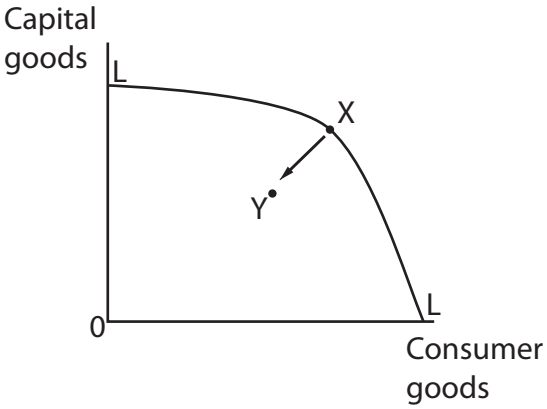
☒ **B**



☒ **C**



☒ **D**



(Total for Question 1 = 1 mark)

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2 Which **one** of the following is a function of the price mechanism?

- ☒ **A** To create an incentive for producers to decrease the quantity supplied when the price increases.
- ☒ **B** To encourage government intervention to allocate scarce resources.
- ☒ **C** To provide a signal to producers and consumers about changes in supply and demand when prices change.
- ☒ **D** To ration scarce resources by allowing prices to decrease when demand increases.

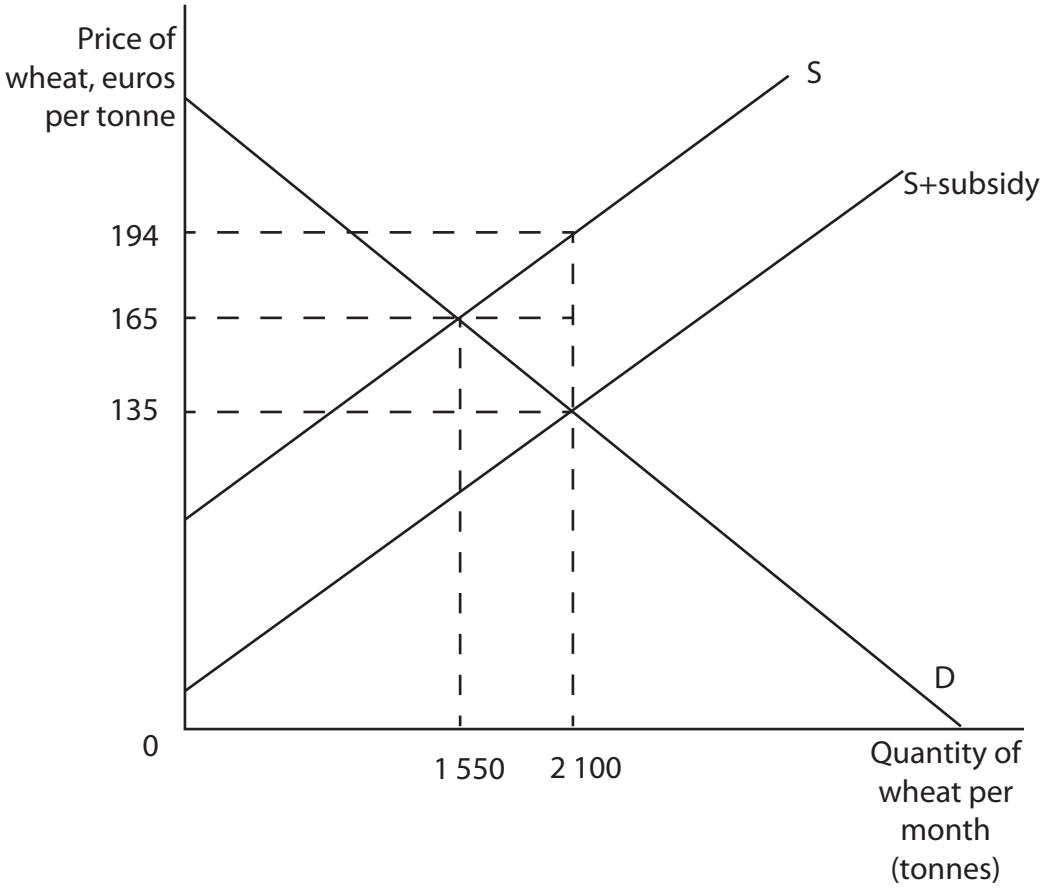
(Total for Question 2 = 1 mark)

3 Which **one** of the following is a cause of government failure?

- ☒ **A** Excessive administrative costs involved in meeting environmental regulations.
- ☒ **B** A market bubble causing the price to rise excessively.
- ☒ **C** The existence of free riders leading to the under-production of public goods.
- ☒ **D** Under-production of foods with external benefits.

(Total for Question 3 = 1 mark)

4 The diagram shows the market for wheat in the European Union after the introduction of a subsidy.



Which **one** of the following is the consumer incidence of the subsidy?

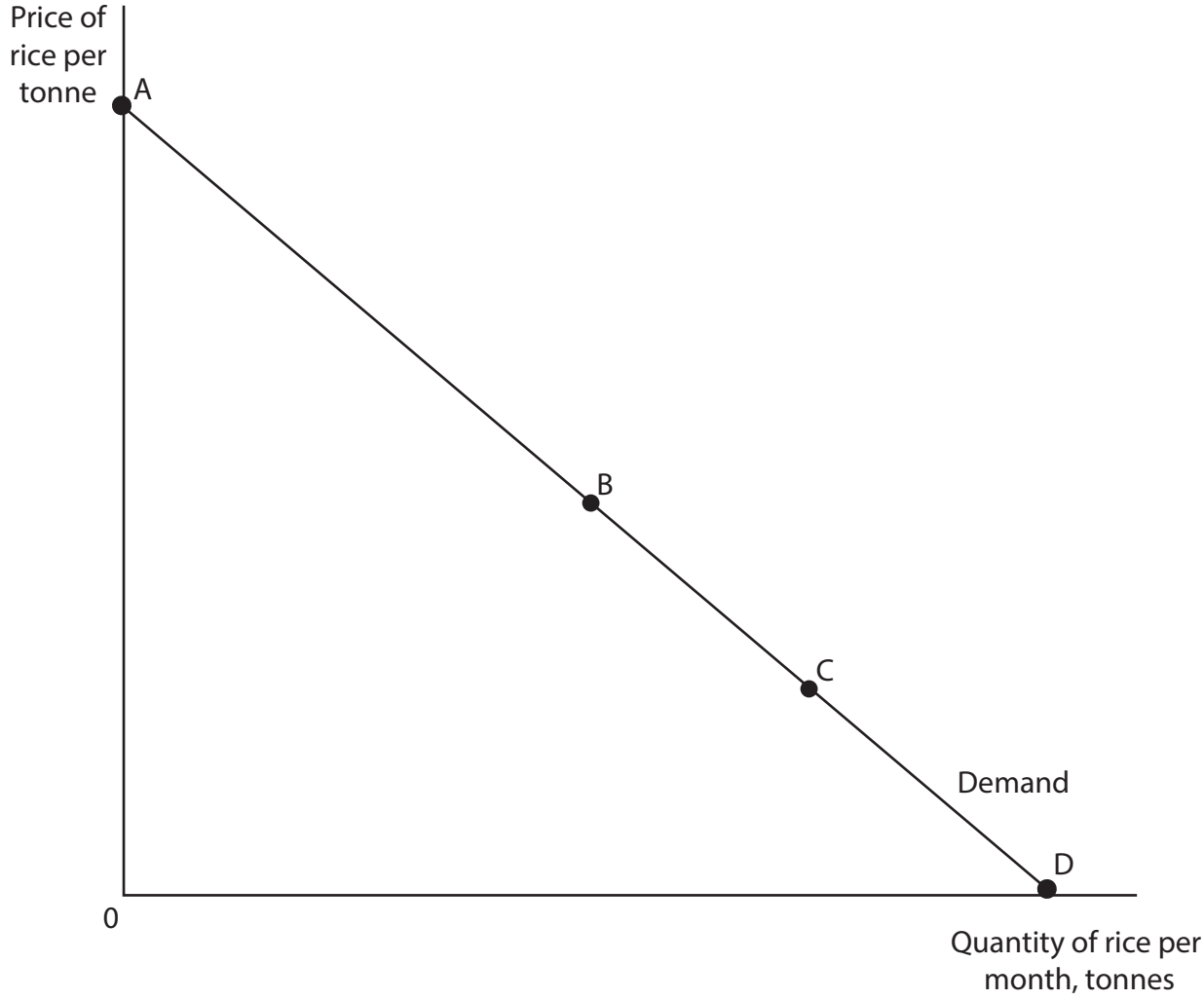
- ☒ **A** €60 900
- ☒ **B** €63 000
- ☒ **C** €123 900
- ☒ **D** €283 500

(Total for Question 4 = 1 mark)

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5 The diagram shows a demand curve for rice.



At which point on the demand curve will the price elasticity of demand be unitary?

- ☒ **A**
- ☒ **B**
- ☒ **C**
- ☒ **D**

(Total for Question 5 = 1 mark)

6 The table shows the estimated income elasticity of demand for various goods and services in the USA.

Item	Estimates of income elasticity of demand
Cheese	-0.51
Public transport	-0.36
Ice cream	+0.83
Motor cars	+2.56

(Source: http://digitalcommons.unl.edu/cgi/viewcontent.cgi?article=1102&context=agecon_cornhusker)

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

☒ **A** Cheese has relatively price inelastic demand.

☒ **B** Public transport is a normal good.

☒ **C** An increase in real income will result in a less than proportionate decrease in demand for ice cream.

☒ **D** A decrease in real income will result in a more than proportionate decrease in the demand for motor cars.

(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 Saudi Arabia introduced its first indirect tax on the sale of goods and services in 2018. The tax is charged at 5% of the price of goods and services.

Draw a diagram to illustrate the impact of the introduction of the indirect tax on the equilibrium price and quantity of petrol in Saudi Arabia.

(Total for Question 7 = 4 marks)

8 Rimac manufacture electric cars. With the first model, the Concept_One, an individual worker was responsible for building each car from start to finish. Only seven were manufactured. In 2017 €30 million was spent on developing a factory which would use the division of labour to manufacture 200 Concept_Two cars.

With reference to the market for car manufacturing, explain **one** benefit of the 'division of labour'.

(Total for Question 8 = 4 marks)

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9 Lake Poopó in Bolivia used to provide the local community with water to irrigate the quinoa fields. By 2017 there had been a 98% reduction in the size of the lake. The community could no longer use the lake for irrigation.

Explain whether Lake Poopó is a free good or an economic good.

(Total for Question 9 = 4 marks)

10 The table shows the quantity of bottled water supplied and the quantity of bottled water demanded at different prices. An advertising campaign results in an increase in demand of 100 bottles of water at each price.

Price per bottle (yuan)	Original quantity demanded per week	Original quantity supplied per week	
¥10	700	200	
¥11	600	300	
¥12	500	400	
¥13	400	500	
¥14	300	600	

Using the data in the table, calculate the equilibrium price for bottled water after the advertising campaign. Show your workings. You may wish to use the last column in your calculation.

(Total for Question 10 = 4 marks)

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11 In Ho Chi Minh City, Vietnam, the price of sand increased from VND510 000 to VND695 000 per cubic metre between April and May 2017. This was caused by reduced supply from Vietnamese mining companies.

Explain the likely impact of this change on producer surplus in the market for sand. Illustrate your answer with a diagram.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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 'substitutes' (Extract A, line 12).

(2)

(b) With reference to Extract A, explain **one** factor that is likely to influence the price elasticity of supply for cocoa beans.

(4)

(c) With reference to Figure 1 and Extract A, analyse **one** reason why the price of cocoa beans 'fell below $2 000 per tonne' (Extract A, line 8) in April 2017.

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Extract B, examine the external costs associated with the production of cocoa beans.

(8)

(e) With reference to Extract C, discuss the likely effects of the reduction in the minimum (guaranteed) price for cocoa.

Illustrate your answer with an appropriate diagram.

(14)

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(e) With reference to Extract C, discuss the likely effects of the reduction in the minimum (guaranteed) price for cocoa.

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.

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2016 it was reported that 50% of gas and electricity consumers in the UK have never switched energy suppliers. It is claimed that those consumers who did switch suppliers saved up to £200 each per year.

Evaluate the reasons why many consumers do not switch energy suppliers.

(Total for Question 13 = 20 marks)

OR

14 In 2017 floods in Bangladesh resulted in 8 million people having to move from their homes. 100 000 houses were destroyed and many crops were lost. The Institute of Water and Flood Management claim that there had been an under-investment in flood defences.

Evaluate reasons for this under-investment in flood defences. Make reference to public goods in your answer.

(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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Economics

International Advanced Subsidiary
Unit 1: Markets in action

Source Booklet

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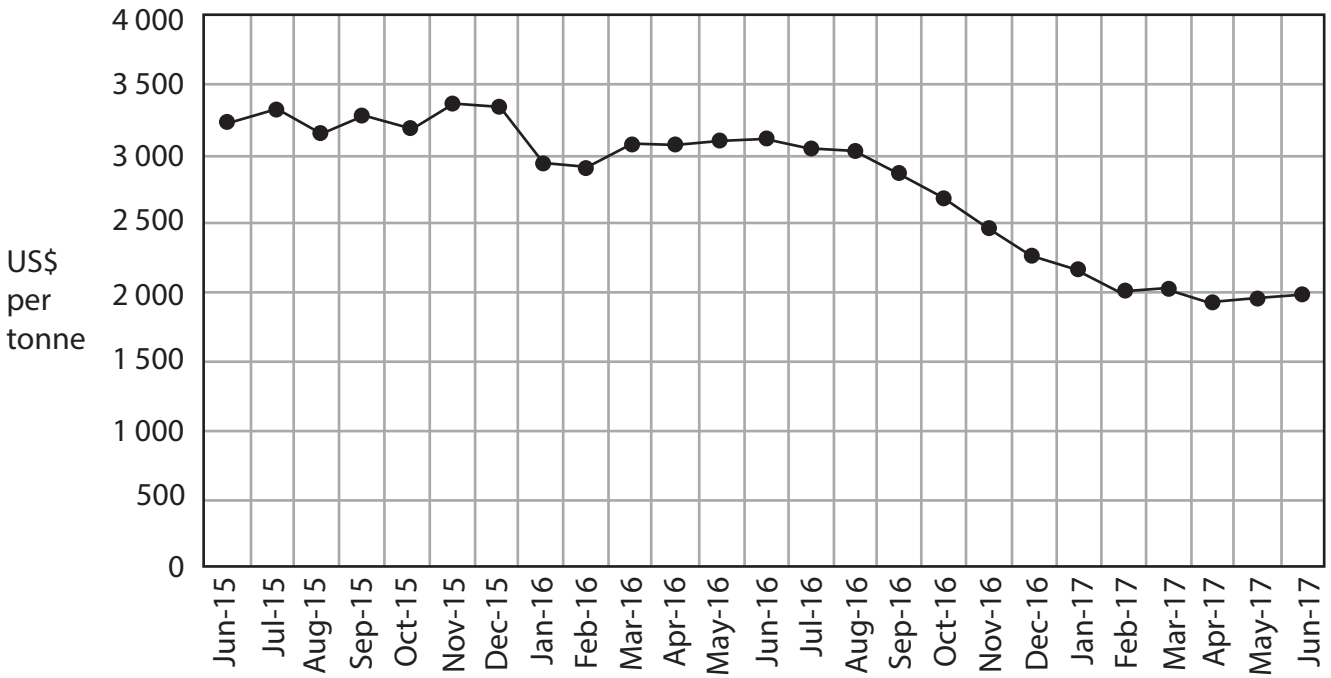
P 5 9 7 8 6 A

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Sources for use with Section C.

The market for cocoa

Figure 1 - Price of cocoa beans, US$ per tonne, June 2015 to June 2017



Extract A - The price of cocoa falls

Cocoa bean prices were high during 2015 and much of 2016 reflecting increased demand and decreased supply. For example, in 2016, consumption of cocoa exceeded production by 197 000 tonnes.

However, in 2017, production in the Côte d'Ivoire rose from 1.45 million tonnes to 1.93 million tonnes. The Côte d'Ivoire's output increased after many new cocoa trees matured. Good cocoa harvests during 2017 led to stocks being 27.3% higher than in 2016. In April 2017, cocoa bean prices fell below $2 000 per tonne.

Cocoa trees take four to five years to mature and produce cocoa pods. Cocoa trees grow best in regions near the equator. This means very few countries can successfully grow the crop.

In contrast, the prices of substitutes for cocoa such as tea and coffee increased during 2017.

Extract B – Cocoa production can damage the environment

Poor management of land used to produce cocoa means rainforest has to be destroyed so new plantations can be started. Soil erosion, caused by growing too much cocoa, makes the land less fertile and reduces crop yield. To increase production, some farmers have started to use fertilisers which cause river pollution.

Farmers should be removing old cocoa trees and allowing the land to recover. Many cannot afford to do this because they need to earn revenue until the replacement trees grow. The continued use of older trees results in lower yields. Consequently farmers seek new land by destroying rainforests. In Indonesia the amount of land that is rainforest has fallen from 30% to closer to 15%. This has a significant negative impact on biodiversity.

However, the Rainforest Alliance trains cocoa farmers on how to manage their trees to avoid environmental damage. Between 2009 to 2015 the amount of cocoa produced by Rainforest Alliance farms increased from 2% to 16%.

Extract C – Minimum price scheme in the Côte d'Ivoire

The Côte d'Ivoire Government sets a minimum (guaranteed) price for cocoa. In 2017, it reduced the minimum price by 36% to cut government spending and reduce cocoa stocks. However, some farmers still sell cocoa at prices below the minimum price because they can receive payments more quickly than from the Government.

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Acknowledgements

Figure 1 based on data taken from http://www.indexmundi.com/commodities/?commodity=cocoa-beans&months=60;

Extract A adapted from 'Cocoa prices to stay low in short term even as chocolate markets are strong' 29 August 2017, Oliver Nieburg, https://www.confectionerynews.com/Article/2017/08/29/Cocoa-prices-to-stay-low-even-as-chocolate-markets-strong;
http://www.smallstarter.com/browse-ideas/how-to-start-a-cocoa-production-business-in-africa-for-the-global-chocolate-market/

Extract B adapted from 'Chop, chop: Cocoa dependents must finance farm training before more forests are axed' Oliver Nieburg, 29 April 2015 http://www.confectionerynews.com/Commodities/What-is-the-environmental-impact-of-cocoa-production?utm_source=copyright&utm_medium=OnSite&utm_campaign=copyright;

Extract C adapted from 'Ivory Coast cocoa farmers sell below base price amid slump' Ange Aboa, 25 May 2017, http://af.reuters.com/article/topNews/idAFKBN18L1UX-OZATP

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