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 | | | | |

Monday 11 January 2021

Afternoon (Time: 1 hour 45 minutes) | Paper Reference **WEC11/01**

Economics

International Advanced Subsidiary
Paper 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** Government intervention leads to a net welfare gain
- ☒ **B** A new environmental regulation leads to excessive administrative costs
- ☒ **C** Speculators cause a market bubble to emerge in the housing market
- ☒ **D** Free riders lead to the underprovision of public goods

(Total for Question 1 = 1 mark)

2 In 2018 government spending in South Korea accounted for 30.3% of GDP.
In Denmark government spending accounted for 52.1% of GDP.

Which **one** of the following describes economies where resources are allocated by both the government and the price mechanism?

- ☒ **A** Free market
- ☒ **B** Command
- ☒ **C** Mixed
- ☒ **D** Irrational

(Total for Question 2 = 1 mark)

3 Which **one** of the following is most likely to have a forward market?

- ☒ **A** Tablet computers
- ☒ **B** Designer clothing
- ☒ **C** Housing
- ☒ **D** Copper

(Total for Question 3 = 1 mark)

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4 The table shows the total utility obtained as a consumer drinks milk.

Glasses of milk	Total utility
1	2
2	5
3	8
4	10
5	9
6	4

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

☒ **A** Utility is maximised when three glasses of milk are consumed

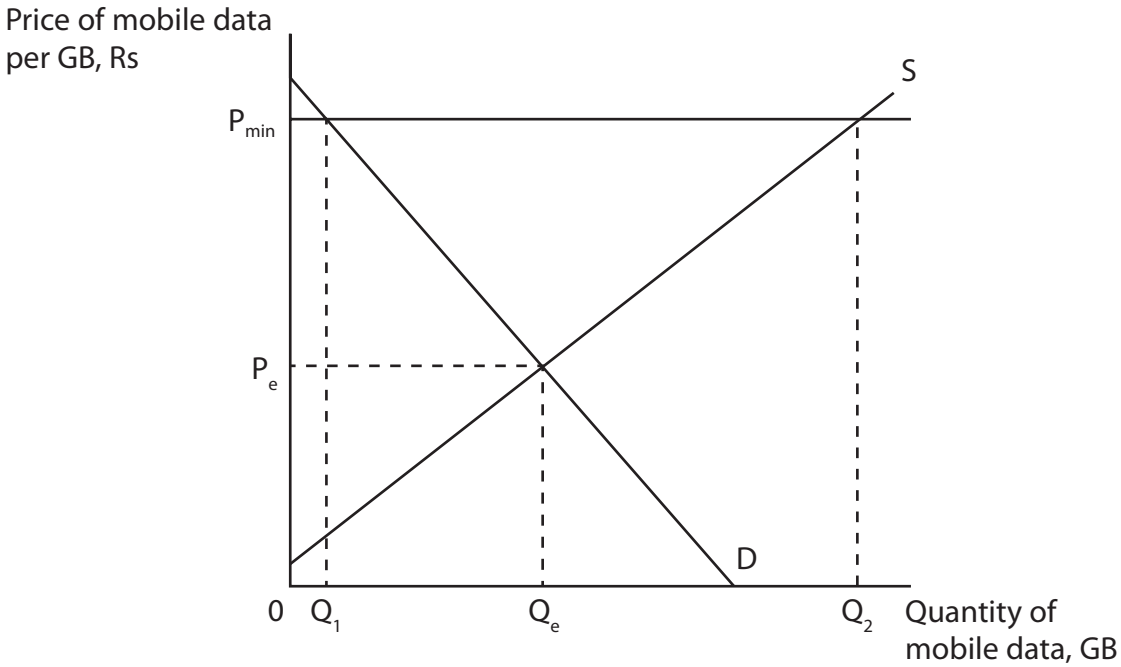
☒ **B** Diminishing marginal utility sets in with the consumption of the fourth glass of milk

☒ **C** Diminishing marginal utility sets in with the consumption of the fifth glass of milk

☒ **D** Utility is maximised when six glasses of milk are consumed

(Total for Question 4 = 1 mark)

5 In India, Vodafone has requested that the government imposes a minimum price for mobile data of Rs35 per gigabyte (GB). The current market price is Rs5. The diagram shows the possible impact of a minimum price introduced at Pmin.



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

- ☒ **A** Excess supply is Q_1Q_2
- ☒ **B** Excess demand is Q_1Q_2
- ☒ **C** Supply contracts from Q_e to Q_2
- ☒ **D** Demand extends from Q_e to Q_1

(Total for Question 5 = 1 mark)

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6 The table shows the estimated income elasticity of demand for various items.

	Income elasticity of demand
Cars	+2.46
Furniture	+1.48
Petrol	+0.48
Public transport	–0.37

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

☒ **A** A 10% increase in income leads to a 24.6% decrease in demand for cars

☒ **B** A 10% increase in income leads to a 14.8% decrease in demand for furniture

☒ **C** A 5% increase in income leads to a 2.4% increase in demand for petrol

☒ **D** A 5% increase in income leads to a 1.85% increase in demand for public transport

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

SECTION B

Answer ALL questions in this section in the space provided.

7 According to the World Health Organization vaccinations prevent more than 2 million deaths each year. However, in 2014 there were 18.7 million infants not receiving any vaccinations.

Draw an externalities diagram to illustrate the underconsumption of vaccinations.

(Total for Question 7 = 4 marks)

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8 The table shows the amount of greenhouse gas emissions resulting from the production of three meat products.

Meat	Greenhouse gas emissions per kilogram (kg) of meat produced
Beef	60 kg
Lamb	24 kg
Poultry	6 kg

With reference to the table, explain what is meant by 'external costs of production'.

(Total for Question 8 = 4 marks)

9 In Oregon, USA, research was conducted in which 10 000 citizens were given health insurance and 45 000 citizens were not. On average, the 10 000 citizens with health insurance had far more hospital admissions and emergency department visits.

Explain why the result of this research is an example of moral hazard.

(Total for Question 9 = 4 marks)

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10 The cross elasticity of demand for tea with respect to a change in the price of coffee is +0.52. Between March 2019 and March 2020 the price of coffee increased by 32%.

Ceteris paribus, calculate the percentage change in the quantity demanded of tea following the change in the price of coffee. Show your workings.

(Total for Question 10 = 4 marks)

11 Several car manufacturers were found to have misled consumers about diesel emissions. As a result, many consumers substituted diesel cars that use platinum with petrol cars that use palladium. Consequently, the price of palladium increased by 46% between March 2019 and March 2020.

Explain the effect of this increase in price on producer surplus in the market for palladium. Illustrate your answer with a diagram.

(Total for Question 11 = 4 marks)

TOTAL FOR SECTION B = 20 MARKS

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SECTION C BEGINS ON THE NEXT PAGE.

SECTION C

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

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

12 (a) Define the term 'renewable resource' (Extract B, line 19).

(2)

(b) Explain what is meant by the term 'rational decision'. Refer to Extract B in your answer.

(4)

(c) Analyse why the global price of oil fell in the first quarter of 2020. Refer to Figure 1 and Extract A in your answer.

Illustrate your answer with a supply and demand diagram.

(6)

(d) With reference to Extract A, examine **two** likely effects of the high level of indirect taxation on diesel and petrol in India.

(8)

(e) With reference to Extract B, discuss the likely microeconomic effects of the subsidy paid to the manufacturers of electric cars.

Illustrate your answer with an appropriate diagram.

(14)

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12 (a) Define the term 'renewable resource' (Extract B, line 19).

(2)

(b) Explain what is meant by the term 'rational decision'. Refer to Extract B in your answer.

(4)

(c) Analyse why the global price of oil fell in the first quarter of 2020. Refer to Figure 1 and Extract A in your answer.

Illustrate your answer with a supply and demand diagram.

(6)

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(d) With reference to Extract A, examine **two** likely effects of the high level of indirect taxation on diesel and petrol in India.

(8)

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(e) With reference to Extract B, discuss the likely microeconomic effects of the subsidy paid to the manufacturers of electric cars.

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 Australia a consumer of electricity would save, on average, AUS$1 000 by switching from the most expensive to the least expensive electricity supplier. However, 30% of consumers do not switch because of the effort required and 22% do not switch because they lack the necessary information.

Evaluate possible reasons why consumers may behave irrationally.

(Total for Question 13 = 20 marks)

OR

14 Between Q4 2016 and Q4 2019 the global price of gold increased from $1 275 to $1 481 per ounce. Over the same period, the global supply of gold increased from 888.8 tonnes to 889.5 tonnes. Only 10 countries mine 62% of global output.

Evaluate reasons why the supply of gold is price inelastic.

(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

Monday 11 January 2021

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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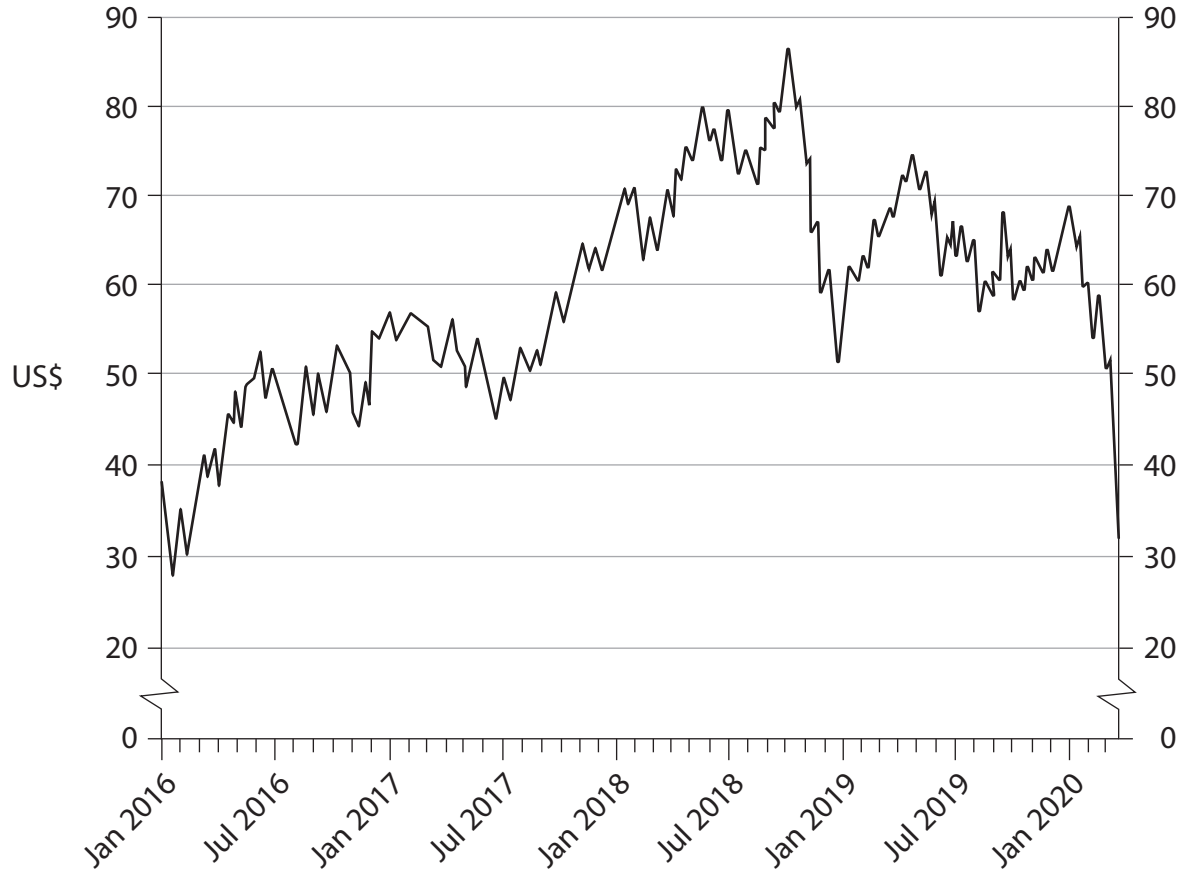
Sources for use with Section C.

The markets for oil and electric cars

Figure 1 Global price of oil per barrel, US$ 2016–2020



Extract A Oil price fall

The global price of oil fell in the first quarter of 2020 after governments restricted the movement of people. Many offices and factories closed, causing a significant reduction in production. With less transport and energy needed, the demand for oil decreased. Oil producing countries, led by Saudi Arabia, planned to reduce production in order to increase the price of oil. However, Russia increased its production, so Saudi Arabia responded by increasing its production.

In India the significant fall in the global oil price only resulted in a 7% decrease in the price of petrol and diesel. One reason for this is the high level of indirect taxation on petrol and diesel in the country. In India almost half the price of petrol and diesel is in the form of indirect taxation.

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Extract B Canadian electric car subsidy

Road transportation accounts for 20% of Canada's carbon emissions. The Canadian Government aims to remove all petrol and diesel cars by 2040. However, in 2019 only 2% of cars were electric.

In 2019 the government introduced a $5 000 subsidy to encourage electric car sales. This subsidy is paid to the manufacturers of electric cars. This will apply to electric cars with a price below $45 000. There are just nine electric car models available for under $45 000.

Indirect taxes are added to the price of a petrol Volkswagen (VW) Golf. With the subsidy it would be cheaper to buy the electric VW Golf. The rational decision would be to purchase the cheaper electric VW Golf.

A problem is that there are only 5 800 charging points that are accessible to Canada's 37 million population. By comparison, in Norway there are 176 000 charging points for the population of just 5 million. The Canadian Government is planning to spend $130 million to increase the number of charging stations.

Electric cars have zero carbon emissions when being driven. However, to produce an electric car battery requires twice as much energy compared with the production of a petrol or diesel car battery. In addition, the electricity used to power the electric vehicle creates emissions if the electricity is generated using fossil fuels like coal. In Canada 60% of electricity is generated using hydroelectricity, a renewable resource, whereas in Norway it is 96%.

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Acknowledgements

Figure 1 based on data taken from https://www.indexmundi.com/commodities/?commodity=crude-oil&months=240

Extract A adapted from 'Eight days that shook the oil market – and the world', Derek Brower, Anjli Raval and David Sheppard, Financial Times, Mar 13 2020, https://www.ft.com/content/c9c3f8ac-64a4-11ea-a6cd-df28cc3c6a68

Adapted from 'Global crude prices have crashed, but petrol and diesel prices have not; here's why', Sumant Banerji, Mar 12 2020, https://www.businesstoday.in/sectors/energy/global-crude-prices-have-crashed-but-petrol-and-diesel-prices-have-not-heres-why/story/398117.html

Extract B adapted from 'Electric car incentives in Canada — what to know about the rebate that includes Tesla 3', Katie Dangefield, Global News, May 2 2019, https://globalnews.ca/news/5225373/canada-electric-car-rebate-program/

Adapted from 'The truth about the environmental damages from electric cars', 0ct 10 2017 https://www.electriciancourses4u.co.uk/blog/environmental-damages-of-electric-cars/