GradeMax

Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel International Advanced Level

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 a role of the government in a mixed economy?

☒ **A** To ration resources according to the price mechanism

☒ **B** To charge indirect taxes on goods with external benefits

☒ **C** To pay subsidies to manufacturers of goods that produce external costs

☒ **D** To introduce a tradeable pollution permit scheme to reduce external costs

(Total for Question 1 = 1 mark)

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2 In 2019 an energy consumer in the UK could save an average of £290 by changing to a different energy supplier. In 2019 over 6.4 million households changed energy supplier.

Which **one** of the following could explain this behaviour?

☒ **A** Consumers being valued by the original supplier

☒ **B** Consumers aiming to maximise utility

☒ **C** Consumers being poor at computation

☒ **D** Consumers aiming to minimise utility

(Total for Question 2 = 1 mark)

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3 The table shows the price elasticity of demand for four household appliances.

Household appliances	Price elasticity of demand
Clothes dryers	−0.14
Dishwashers	−0.37
Refrigerators	−0.48
Washing machines	−0.32

(Source adapted from: https://www.osti.gov/servlets/purl/929429)

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

☒ **A** The demand for clothes dryers is price elastic

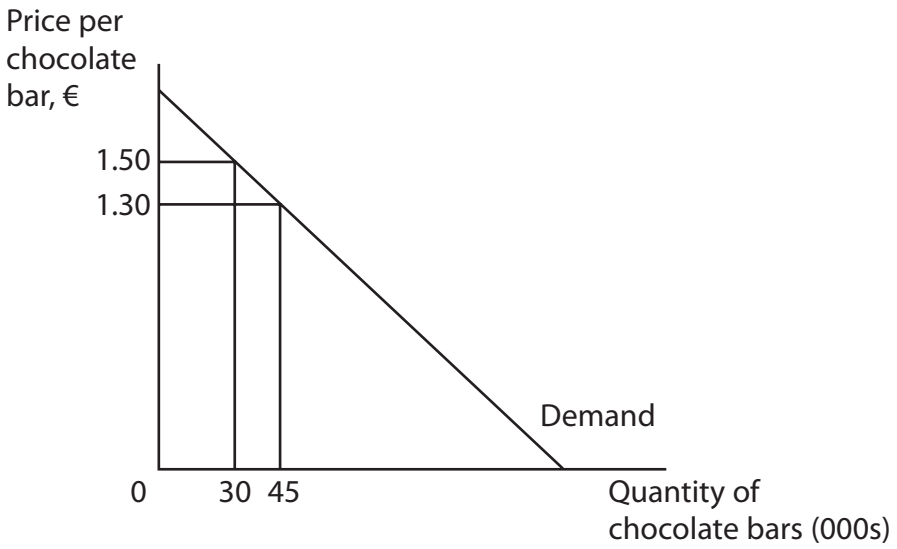
☒ **B** The demand for dishwashers is perfectly price inelastic

☒ **C** The demand for refrigerators is price inelastic

☒ **D** The demand for washing machines is perfectly price elastic

(Total for Question 3 = 1 mark)

4 The diagram shows the demand curve for a chocolate bar in Spain.



Retailers reduce the price of the chocolate bar from €1.50 to €1.30.

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

☒ **A** Total revenue will rise by €13 500

☒ **B** Total revenue will rise by €58 500

☒ **C** Total revenue will decrease by €6 000

☒ **D** Total revenue will decrease by €45 000

(Total for Question 4 = 1 mark)

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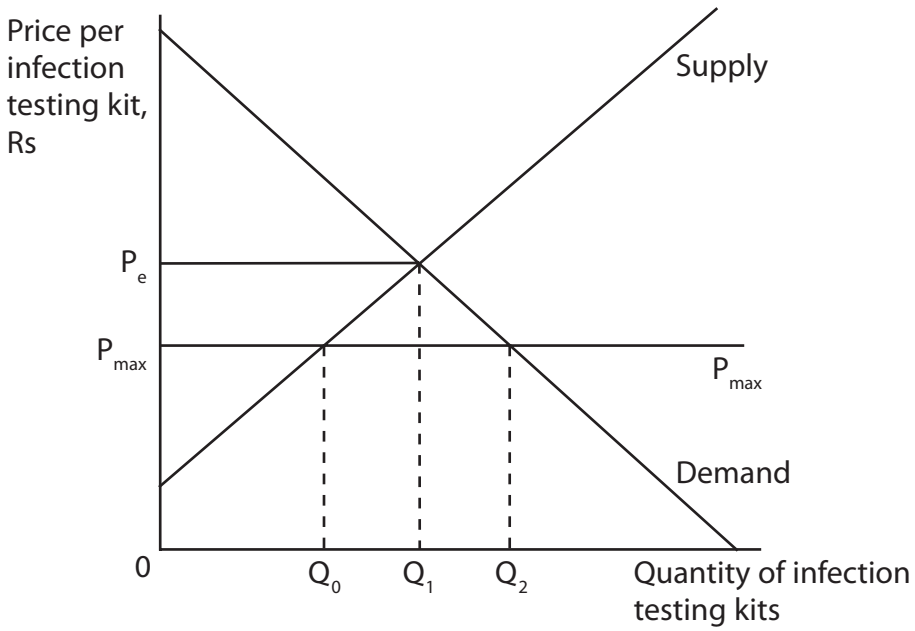
5 The diagram shows the market for infection testing kits in Odisha, India.



The Government in Odisha imposed a maximum price, P_{max}, on infection testing kits.

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

☒ **A** Quantity supplied extends from Q_0 to Q_1

☒ **B** Quantity demanded contracts from Q_2 to Q_1

☒ **C** Excess demand will be equal to Q_0Q_2

☒ **D** Excess supply will be equal to Q_0Q_2

(Total for Question 5 = 1 mark)

6 The table shows the cross elasticity of demand for selected drinks with respect to sugar-sweetened drinks in Chile.

Drink	Cross elasticity of demand
Water	+0.63
Milk	+0.25
Coffee	+0.12

(source: https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-017-4098-x/tables/5)

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

☒ **A** The demand for coffee will be most responsive to a change in the price of sugar-sweetened drinks

☒ **B** The demand for water will be most responsive to a change in the price of sugar-sweetened drinks

☒ **C** An increase in the price of sugar-sweetened drinks will lead to a more than proportionate increase in the demand for milk

☒ **D** An increase in the price of sugar-sweetened drinks will lead to a decrease in the demand for water, milk and coffee

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS

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SECTION B BEGINS ON THE NEXT PAGE.

SECTION B

Answer ALL questions in this section in the space provided.

7 China aims to increase electricity generation from renewable resources. China's Government has introduced a subsidy for solar panel manufacturers.

Draw a diagram to illustrate the impact of the introduction of a subsidy on the market for solar panels.

Show the new equilibrium price and quantity and the area of government expenditure on the subsidy in your diagram.

(Total for Question 7 = 4 marks)

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8 The table shows the change in the sales of capital goods and consumer goods compared to the previous month in the USA.

	Capital goods	**Consumer goods**
April 2020	–6.5%	–14.7%
May 2020	+2.3%	+17.7%

With reference to the table, explain the difference between 'capital goods' and 'consumer goods'.

(Total for Question 8 = 4 marks)

9 Most of the Netherlands is below sea level and is therefore liable to flooding. The Dutch Government spends €1 billion per year on flood defences.

Explain **one** reason for the provision of this public good by the Dutch Government.

(Total for Question 9 = 4 marks)

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10 The table shows the quantity of coffee beans supplied globally and average coffee bean prices in 2019 and 2020.

	Average price of coffee beans, per pound (lb)	**Quantity of coffee beans supplied, million bags**
2019	$1.36	169.0
2020	$1.02	167.4

Ceteris paribus, calculate the price elasticity of supply for coffee beans.
Show your workings.

(Total for Question 10 = 4 marks)

11 Between January 2020 and May 2020 the price of bananas charged by retailers in the USA increased from $1.17 to $1.30 per kg. This was mainly caused by increased costs of transportation from banana growers to markets in North America.

Explain the likely impact of this change in price on consumer surplus.

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, 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 'complementary goods' (Extract A, line 8).

(2)

(b) With reference to Figure 1 and Extract A, analyse why 'between January and May 2020 the world price of rubber fell from $1.67 to $1.35 per kg'.

Illustrate your answer with a supply and demand diagram.

(6)

(c) With reference to the first paragraph of Extract B, explain what is meant by 'the supply of rubber is price inelastic'.

(4)

(d) Examine the effect on producer surplus of the change in market conditions for rubber gloves as described in Extract C. Include a diagram in your answer.

(8)

(e) With reference to Extract B, discuss the external costs associated with tyre production and consumption.

(14)

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12 (a) Define the term 'complementary goods' (Extract A, line 8).

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Illustrate your answer with a supply and demand diagram.

(6)

(c) With reference to the first paragraph of Extract B, explain what is meant by 'the supply of rubber is price inelastic'.

(4)

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS

SECTION D

Answer ONE question from this section.

Write your answer in the space provided.

EITHER

13 In 2018 the Government of Uganda introduced an indirect tax on mobile internet usage. The aim was to raise tax revenue. Consumers had to pay a tax of 200 shillings per day to use services including Facebook, Twitter and Instagram. In the six months that followed the introduction of the tax, mobile internet usage decreased from 47.4% to 35% of the population.

Evaluate the likely microeconomic effects of the introduction of this indirect tax.

(Total for Question 13 = 20 marks)

OR

14 In 2019, in Sweden, on average:

- households saved 16.5% of their incomes
- households borrowed 189% of their incomes
- a consumer made 349 debit card payments.

With reference to the information above and your own knowledge, evaluate the role of financial markets in an economy.

(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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GradeMax

Pearson Edexcel International Advanced Level

Time 1 hour 45 minutes

Paper reference **WEC11/01**

Economics

International Advanced Subsidiary
UNIT 1: Markets in action

Source Booklet

Do not return this Booklet with your question paper.

Total Marks

Turn over ▶

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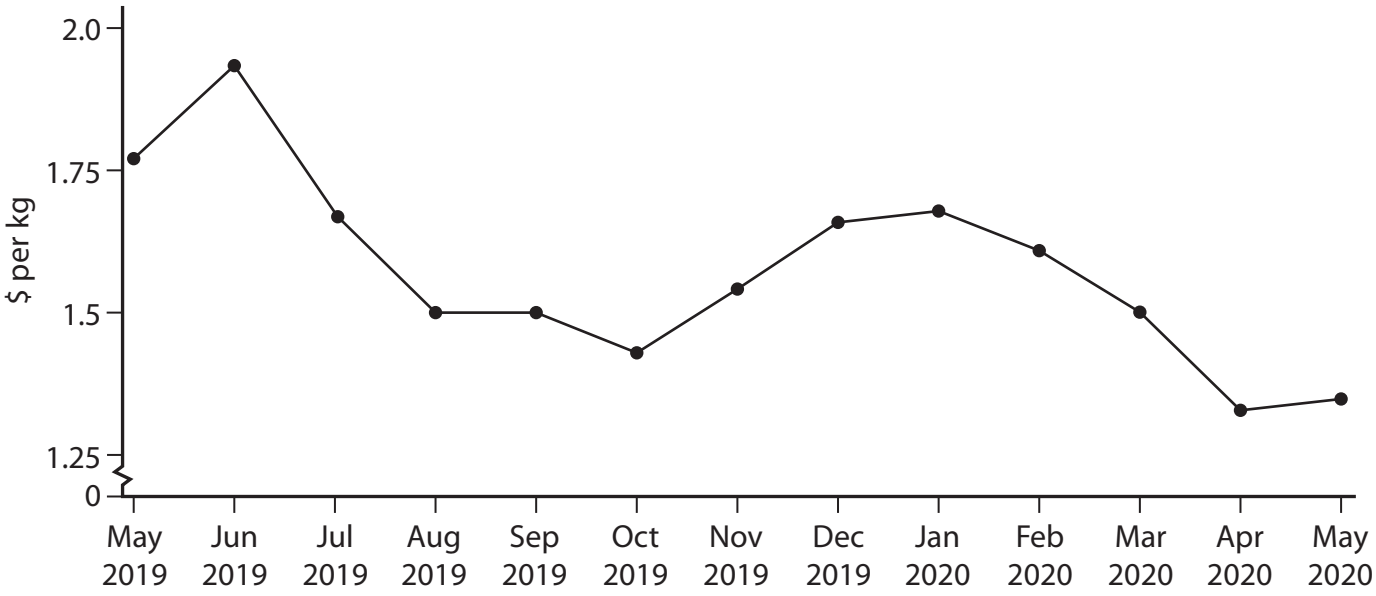
Sources for use with Section C.

The markets for rubber, tyres (tires) and rubber gloves

Figure 1 World price of rubber, US$ per kg, May 2019–May 2020



Extract A Rubber price falls as car and tyre production fall

Between January and May 2020 the world price of rubber fell from $1.67 to $1.35 per kg. This was caused by a significant decrease in demand for tyres that are made from rubber. Tyre production uses 75% of the world's natural rubber.

Over the same period, tyre sales fell by 35% in Europe, 42% in North America and by 33% in South America. There was a large decrease in car production in all of these regions as a result of the temporary closure of car factories. Car usage also fell, resulting in fewer tyres needing to be replaced. Cars and tyres are complementary goods. 5

Extract B Rubber production and pollution from tyres

Rubber trees grow best in a climate where there is heavy rainfall and temperatures between 20°C and 35°C. Farmers in Thailand, Indonesia, China and West Africa provide 85% of the world's natural rubber supply. Rubber trees take 6 years to produce their first crop. Consequently, the supply of rubber is price inelastic.

Between 2000 and 2019 the demand for rubber tyres increased resulting in deforestation. 3 million hectares of forests in the Mekong region of South East Asia were lost to make space for rubber plantations.

A research study into car emissions found that tyres emitted 1 000 times more PM2.5 particles than emissions from exhaust fumes. This study was based on testing one fully loaded car and one type of road surface.

Long-term exposure to PM2.5 results in:

- respiratory diseases and reduced lung function in children and adults
- increased risk of lung cancer
- cardiovascular disease affecting the heart and causing strokes.

Further problems are caused when tyres are sent to landfill. Tyres contain chemicals and heavy metals that are released into the environment over time. These cause cancer and genetic mutations.

Tyre recycling has helped to reduce the number of tyres in landfill from one billion in 1991 to 60 million in 2018. In the USA 43% of the recycled tyres are used to produce energy. These recycled tyres produce 25% more energy than coal. The ash from the tyres is less polluting than burning coal.

Extract C Profits of manufacturers of rubber gloves

Rapidly rising demand for rubber gloves across the world enabled the Malaysian rubber glove manufacturer, Top Glove, to achieve a 366% increase in profits in the second quarter of 2020. This was caused by a substantial increase in sales of rubber gloves to the healthcare sector.

Acknowledgements

Figure 1 based on data taken from https://www.indexmundi.com/commodities/?commodity=rubber&months=12

Extract A adapted from https://www.michelin.com/en/finance/key-figures-and-indicators/markets/

Extract B adapted from https://airqualitynews.com/2020/03/09/air-pollution-from-tyres-1000-worse-than-from-exhaust-claims-study/

https://foodthesis.com/what-is-pm-2-5/#:~:text=%20How%20PM%202.5%20impacts%20our%20health%3F%20,and%20dryness%20are...%205%20Skin%20irritation%20More%20

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www.agrifarming.in/rubber-plantation

https://sustainablenaturalrubber.org/news-publications/smallholdersrepresentation-working-group-update-august-2019/

Extract C adapted from 'Malaysia's Top Glove Q3 profit jumps over 360% as sales shoot up during pandemic', Liz Lee, Reuters, June 2011 2020 https://uk.reuters.com/article/top-glove-results/malaysias-top-glove-q3-profit-jumps-over-360-as-sales-shoot-up-during-pandemic-idUKL4N2DO11S