Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel International GCSE

Centre Number | Candidate Number

Monday 13 January 2020

Morning (Time: 1 hour 30 minutes) | Paper Reference **4EC1/01**

Economics

Level 1/2
Paper 1: Microeconomics and Business Economics

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** questions.
- Answer the questions in the spaces provided – *there may be more space than you need.*
- Calculators may be used.
- You are advised to **show all your working out** with **your answer clearly identified** at the **end of your solution.**

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.*

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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Pearson

Answer ALL questions. Write your answers in the spaces provided.

Some 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 (a) Which **one** of the following values shows perfect price inelasticity of supply?

(1)

☐ **A** 1.5

☐ **B** 1

☐ **C** 0.5

☐ **D** 0

(b) A firm has total costs of $1 250 000 per month and variable costs of $100 per unit. If it produces 5,000 units, calculate the **total fixed costs** per month for the firm.

(1)

☐ **A** $1 750 000

☐ **B** $1 250 100

☐ **C** $1 249 900

☐ **D** $750 000

(c) What is meant by the term supply?

(2)

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(d) State **one** example of an occupation that is in the secondary sector of the economy.

(1)

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(e) Define the term labour.

(1)

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(f) Calculate the **income elasticity of demand (YED)** for a good if income increases by 25% and quantity demanded increases by 10%. You are advised to show your working.

(2)

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(g) Using the diagram below, draw the likely effects of an increase in income on the equilibrium price and quantity for wireless headphones. Label the new curve, the new equilibrium price and quantity.

(3)

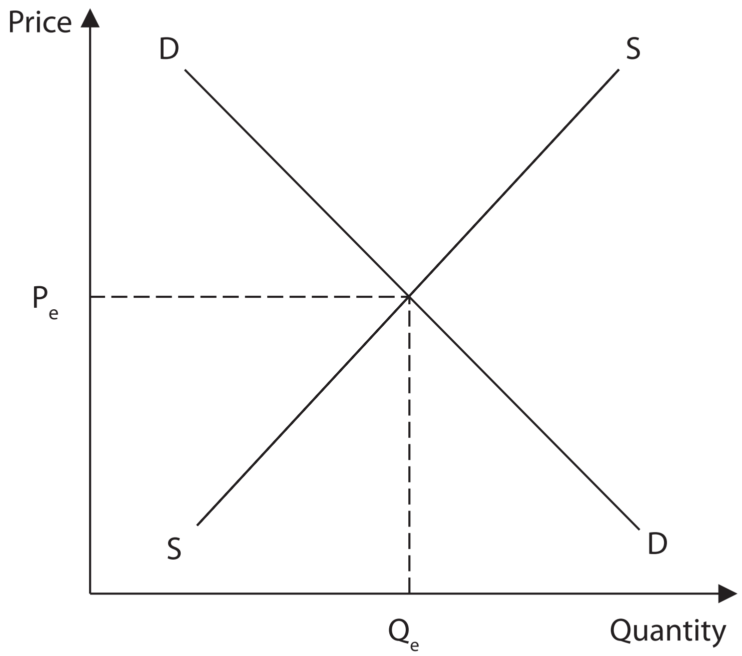

Figure 1

The government of a country has decided to build a new hospital.

(h) Explain **one** possible opportunity cost for the government of this decision.

(3)

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McAfee is a US-based global computer software security company. In 2017, its revenue was over \$2.5bn. The company operates a 'fundraising match programme'. This means when one of its 7,600 employees participates in a fundraising activity, such as a walk, run or cycle event, the company will contribute an equal amount. For every \$1 raised for charity by an employee, the company will also contribute \$1 to the charity, up to a maximum of \$1 000 per person.

(Source adapted from: https://doublethedonation.com/tips/companies-that-donate-to-nonprofits/#match)

(i) With reference to the data above and your knowledge of economics, analyse the possible reasons why McAfee chooses not to profit maximise but instead operates the fundraising match programme.

(6)

(Total for Question 1 = 20 marks)

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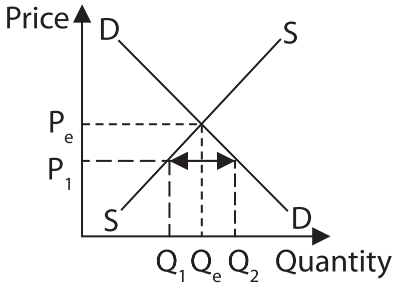
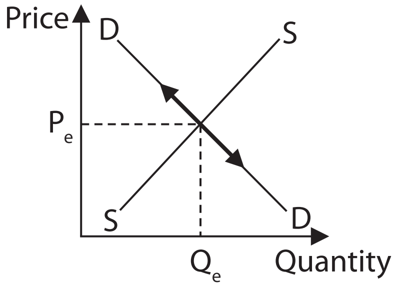
2 (a) Which **one** of the following diagrams shows excess demand?

(1)

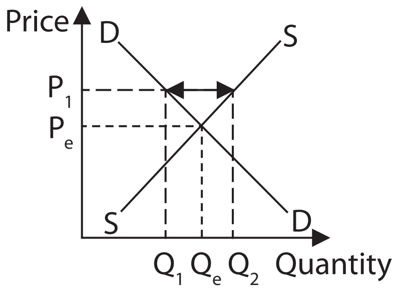
☒ **A**



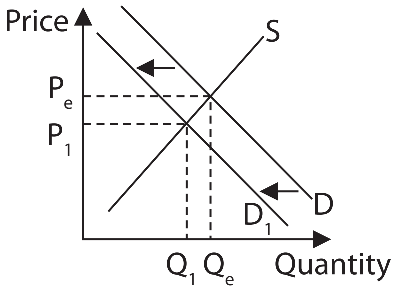
☒ **B**



☒ **C**



☒ **D**



(b) Land can be described as which **one** of the following?

(1)

☒ **A** A diseconomy of scale

☒ **B** A factor of production

☒ **C** A variable cost

☒ **D** A market failure

(c) State the formula for profit.

(1)

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(d) Calculate the **price elasticity of supply (PES)** for a product when price increases by 30% and quantity supplied increases by 36%. You are advised to show your working.

(2)

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(e) Define the term finance.

(1)

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The Irish Artisan Charcoal Company (IACC) is the only firm producing charcoal in Ireland. Damaged trees which would otherwise have been left to rot are used to produce top quality charcoal.

(Source adapted from: https://www.limerickleader.ie/video/home/348948/watch-irish-artisan-charcoal-company-in-limerick-blazing-a-trail-with-unique-product.html)

(f) Describe the type of market structure in which the Irish Artisan Charcoal Company operates.

(2)

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Street lighting is considered to be a public good.

(g) Explain **one** reason why this may cause a free rider problem.

(3)

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Wonderful Wax is a small, UK-based firm that produces candles. The candles are environmentally friendly because they are handmade with soy wax and pure essential oils. This is instead of harmful paraffin wax which produces toxins when burned. Elissa Newham set up the business because she wanted to help the environment. She was surprised when a larger firm made contact, offering its facilities to increase production if Elissa was prepared to share the profits.

(h) With reference to the data above and your knowledge of economics, assess whether Wonderful Wax would have more benefits from remaining a small firm rather than becoming a large firm.

(9)

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(Total for Question 2 = 20 marks)

3 (a) Which **one** of the following is an example of an external economy of scale?

(1)

- ☒ **A** Bulk buying
- ☒ **B** Skilled labour
- ☒ **C** Bureaucracy
- ☒ **D** Managerial

(b) Which **one** of the following is a main feature of an oligopoly?

(1)

- ☒ **A** Rising fixed costs
- ☒ **B** No barriers to entry
- ☒ **C** Large firms dominate the market
- ☒ **D** Specialises in the public sector

An economy can produce consumer and capital goods. This economy originally produced at PPC1 with all resources fully employed but due to positive economic growth, it can now produce at PPC2 with all resources fully employed.

(c) Using the axes below, draw two production possibility curves (PPC) to show an economy moving from PPC1 to PPC2. Label both production possibility curves and the axes.

(3)

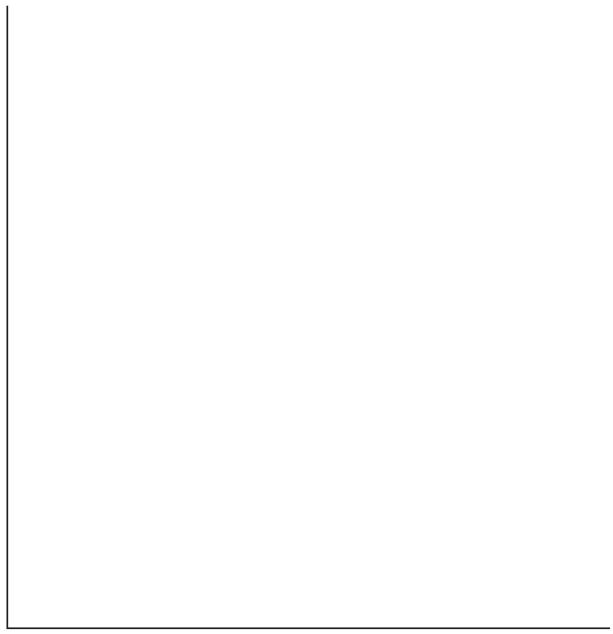

Figure 2

Technology has been used to perform some of the jobs previously done for many years by humans, for example, robots in factories and self-checkout machines. This substitution of capital for labour is likely to increase as technology advances. At most call centres, humans currently respond to customer queries but Google has developed an automated assistant. Many telecom firms have switched to using calls made by these automated assistants.

(d) With reference to the data above and your knowledge of economics, analyse how the demand for labour might be affected by the use of machines.

(6)

There are many reasons for firework displays. The 'bang', 'pop' and 'whizz' sounds, along with wide-ranging displays of colourful sparks are used to celebrate religious festivals and historical occasions, as well as private and public events. Some events charge an entry fee but people are still able to see and hear the fireworks without entering the venues. Former military personnel have complained this can bring back negative memories relating to war experiences. It can also disturb animals that are frightened by the loud noises.

(e) With reference to the data above and your knowledge of economics, assess whether fireworks have more negative than positive externalities.

(9)

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(Total for Question 3 = 20 marks)

4 Veronique owns a shop that makes cakes for special occasions. The cakes sell for an average price of €40 each.

(a) Calculate the quantity of cakes sold by Veronique's shop when total revenue is €3 600. You are advised to show your working.

(2)

German broadband group urges the Vodafone-Liberty deal to be stopped

A business group representing German broadband providers asked regulators to stop the takeover by Vodafone of Liberty Global's German operations, saying the new firm would be too dominant. In 2018, Vodafone agreed to pay $21.8bn for Liberty Global. Arguments against the takeover included that it would delay the work on building a nationwide fibre-optic network and damage competition in the cable TV market.

(Source adapted from: https://uk.reuters.com/article/uk-liberty-global-m-a-vodafone/german-broadband-group-urges-eu-to-block-vodafone-liberty-deal-idUKKCN1NC0Z2)

(b) With reference to the data above and your knowledge of economics, analyse why governments may want to control takeovers.

(6)

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Value Added Tax (VAT) is an indirect tax that must be added to the price of most food and household goods. The rate of VAT in South Africa was increased from 14% to 15% on 1st April 2018. Both consumer spending and business confidence fell following this increase but a further rise in VAT is being discussed by the government. VAT is not currently added to the price of fruit, vegetables and bread.

(c) With reference to the data above and your knowledge of economics, evaluate the usefulness of price elasticity of demand (PED) in helping the South African Government to decide whether to increase the rate of VAT.

(12)

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(Total for Question 4 = 20 marks)

TOTAL FOR PAPER = 80 MARKS

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