Write your name here

Surname		Other names

Centre Number

Candidate Number

Economics
Paper 1

Monday 6 June 2016 – Afternoon
Time: 2 hours 30 minutes

Paper Reference
4EC0/01

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** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need*.

Information

- The total mark for this paper is 120.
- 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.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

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PEARSON

4EC0 | 2016 | May/June | Paper 1 | GradeMax

Answer ALL questions.

Some questions must be answered with a cross in the 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 Figure 1a shows the market for coffee.
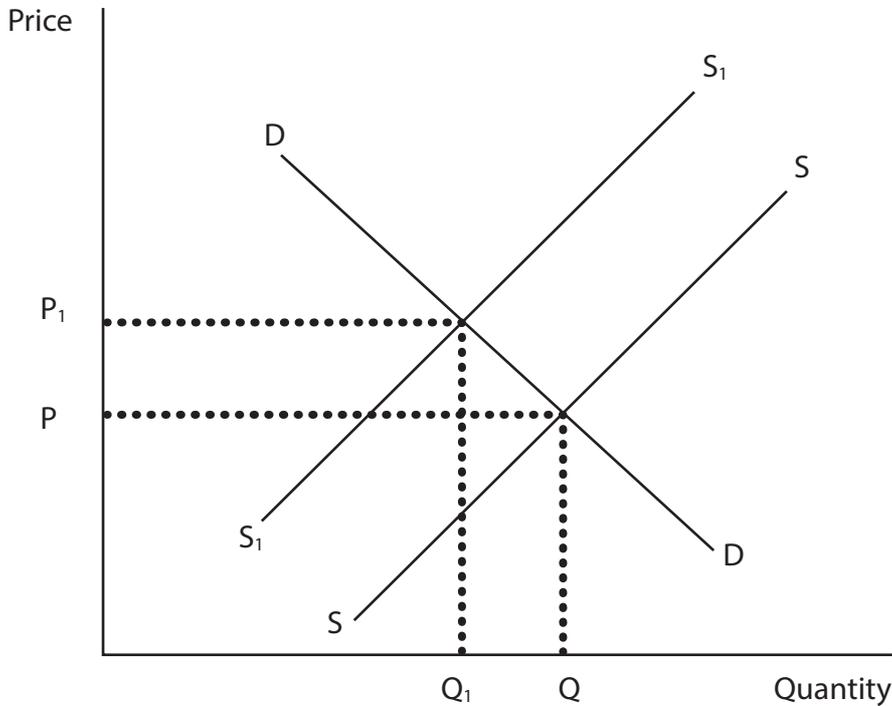
Figure 1a

(a) (i) In Figure 1a the shift in the supply curve from S to S_1 is most likely to have resulted from

(1)

⊠ **A** an increased preference for coffee by consumers

⊠ **B** improved technology in the coffee industry

⊠ **C** an increase in the wages of coffee plantation workers

⊠ **D** a fall in consumer incomes

Since October 2014 global coffee prices have been on a downward trend.

(ii) Identify and briefly explain **one demand** factor which might have led to this **downward trend** in prices.

(2)

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(iii) Identify and briefly explain **one supply** factor which might have led to this **downward trend** in prices.

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(iv) Explain the difference between price elastic and price inelastic supply. Use appropriate diagrams to illustrate your answer. Draw your diagrams in the space provided.
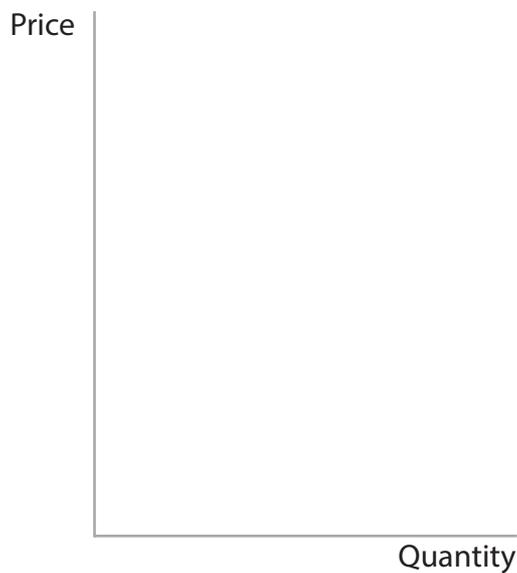
(5)

Price

Quantity

Price

Quantity

Explanation

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(b) (i) Briefly explain what is meant by the economic term scarcity.

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(ii) The economic problem means decisions need to be made about:

(1)

⊠ **A** What to produce, How to produce, For whom to produce

⊠ **B** What to produce, When to produce, For whom to produce

⊠ **C** What to produce, How to produce, Where to produce

The UK has recently discovered a new energy source called shale gas.

(iii) Annotate Figure 1b, the production possibility curve for the UK, to indicate the discovery of shale gas in the UK.

(1)

Figure 1b

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Turn over ▶
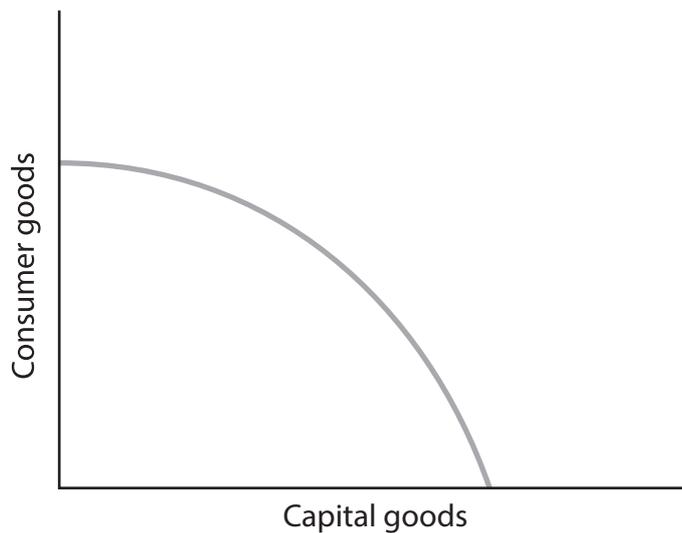
(iv) Assess the likely effects on the UK economy of the discovery of shale gas.

(6)

(c) (i) Briefly explain what is meant by the public sector.

(2)

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Figure 1c shows public sector employment in Greece in 2009 and 2013.

Public sector employment in Greece

(Source: http://greece.greekreporter.com)
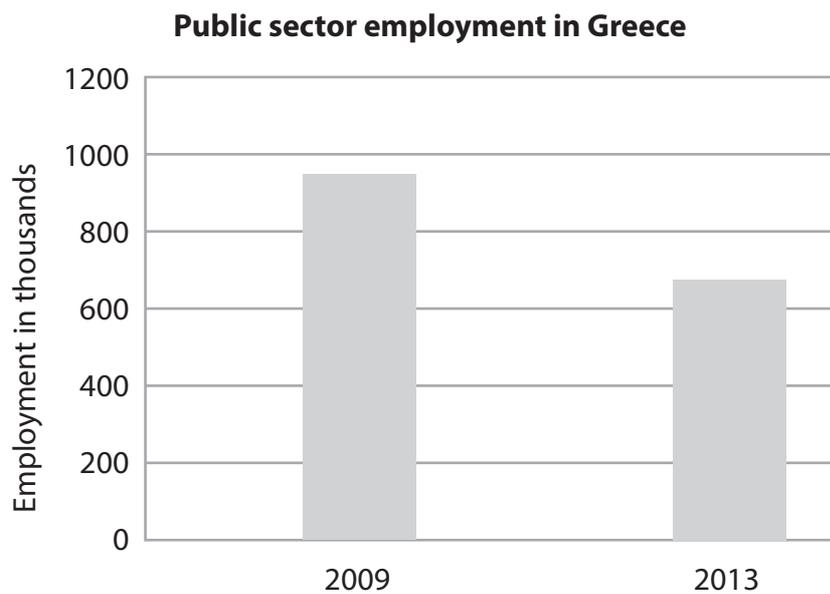
Figure 1c

(ii) Referring to the data in Figure 1c, describe what has happened to public sector employment in Greece.

(2)

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In 2015, **public sector** bank workers in India called off a strike after a wage increase was agreed.

(iii) A wage increase for **public sector** bank workers in India will lead to some public sector bank workers losing their jobs. Do you agree with this statement? Give reasons for your answer.

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(Total for Question 1 = 30 marks)

2 (a) Table 2 shows costs for a taxi firm. Fill in the missing values in Table 2.

Output (number of journeys)	Total fixed costs £	Total variable costs £	Total cost £	Average total cost £
1 000	(i)	5 000	6 000	(ii)
2 000	1 000	9 000	(iii)	5

Table 2

(3)

Space for workings if required.

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(iv) Identify **one** possible example of a fixed cost for a taxi firm.

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(v) Explain why the example you have given in (a)(iv) can be considered a fixed cost.

(2)

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(vi) The taxi firm charges an average of £11 per taxi journey. Calculate the expected total profit if the taxi firm makes 2,000 journeys in a year. Show your workings.

(2)

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(b) (i) With the aid of a diagram, distinguish between **internal** economies and diseconomies of scale. Draw your diagram in the space provided.

(5)

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Output

Explanation

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(ii) Assess the importance of **external** economies of scale to firms. Illustrate your answer with examples.

(6)

(c) (i) Social benefit is

(1)

⊠ **A** social benefit = private costs + external costs

⊠ **B** social benefit = private benefit − external benefit

⊠ **C** social benefit = private benefit + external benefit

Crossrail will be a new railway line running across London from west to east. It is due to be completed by 2018.

(ii) Identify and briefly explain **one** possible **private** benefit of a transport project like Crossrail.

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(iii) Identify and briefly explain **one** possible **external** benefit of a transport project like Crossrail.

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The Chinese government wishes to discourage economic activity that results in external costs to society. Car pollution is a significant external cost in Beijing.

(iv) Evaluate **two** measures the Chinese government could use to minimise the external costs resulting from car pollution in Beijing.

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(Total for Question 2 = 30 marks)

3 (a) (i) Define the term economic cycle.

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Figure 3 shows Gross Domestic Product (GDP) quarterly growth rate in Spain from 2012 to 2015.

Spain GDP Growth Rate

(Source: www.tradingeconomics.com / National Statistics Institute)

Figure 3

Between July 2012 and July 2013 Spain experienced a recession.

(ii) With reference to the data in Figure 3, explain what is meant by the term 'recession'.

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(iii) Identify **one** characteristic of recession.

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During 2013 the Spanish economy entered a period of positive economic growth as measured by GDP.

(iv) Identify and briefly explain **two** limitations of GDP as a measure of economic growth.

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(v) Expansionary fiscal policy will always stimulate economic growth. Do you agree with this statement? Give reasons for your answer.

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(b) (i) Identify and explain **two** functions of money.

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(ii) What type of inflation is caused by a rise in oil prices?

(1)

⊠ **A** Cost push

⊠ **B** Demand pull

⊠ **C** Money supply

(iii) Briefly explain how an increase in the money supply leads to inflation.

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(iv) Examine **two negative** consequences of a sustained period of inflation for the Spanish economy.

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(Total for Question 3 = 30 marks)

4 (a) (i) Briefly explain what is meant by currency speculation.

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Complete Table 4 below to indicate how each change is likely to affect the value of a currency in a country.

(3)

Changes affecting exchange rate	Appreciate	Depreciate
(ii) Interest rates in the country fall	☒	☒
(iii) Increase in foreign direct investment to the country	☒	☒
(iv) An increase in total amount spent on imports by the country	☒	☒

Table 4

(v) Briefly explain your answer to (a)(iii).

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(vi) Briefly explain the likely impact of an appreciation of a country's currency on its imports.

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(b) (i) Identify and briefly explain **two** activities of the World Trade Organisation.

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(ii) What is a trade bloc?

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In 2015, the Tripartite Free Trade Area (TFTA) was established in Africa. This trade bloc includes more than half of the countries in Africa.

(Source: http://www.brookings.edu/blogs/africa-in-focus/posts/ 2015/06/17-tripartite-free-trade-area-andriamananjara)

(iii) The advantages of becoming a member of a trade bloc outweigh the disadvantages. Do you agree with this statement? Give reasons for your answer.

(6)

(c) (i) What is meant by international debt?

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(ii) To what extent is aid to a developing country likely to lead to an increase in that country's standard of living? Give reasons for your answer.

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(Total for Question 4 = 30 marks)

TOTAL FOR PAPER = 120 MARKS