

Write your name here

Surname

Other names

Centre Number

Candidate Number

Edexcel GCE

Economics

Advanced Subsidiary

Unit 1: Markets: How they work and why they fail

Friday 20 May 2011 – Morning

Time: 1 hour 30 minutes

Paper Reference

6EC01/01

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 in Section A and **one** question from Section B.
- 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.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Check your answers if you have time at the end.

Turn over ►

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Section A: Answer all the questions in this section

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Statement 1: In the March 2010 Budget the Chancellor of the Exchequer announced a tax increase on a packet of cigarettes of 2 per cent above the rate of inflation for each year between 2011 and 2014.

Statement 2: Tax now forms more than 75% of the price of a packet of cigarettes.

Which of the following best describes the two statements above?

(1)

A Statement 1 is positive and statement 2 is normative

B Both statements are positive

C Statement 1 is normative and statement 2 is positive

D Both statements are normative.

Answer

Explanation

(3)

(Total for Question 1 = 4 marks)



2 One function of the price mechanism is to:

(1)

- A Encourage businesses to exit a market as price of the goods produced increases
- B Eliminate a surplus of a good by allowing the market price to fall
- C Encourage government intervention to set production targets
- D Maintain price stability.

Answer

Explanation

(3)

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(Total for Question 2 = 4 marks)



3 Estimates of UK income and price elasticity of demand for milk and cheese

Dairy product	Income elasticity of demand	Price elasticity of demand
Milk	0.05	-0.36
Cheese	0.23	-0.35

Source: <https://statistics.defra.gov.uk/esg/publications/nfs/2000/Section6.pdf>

From the information in the table it can be deduced that milk and cheese:

(1)

- A** Are inferior goods with a price inelastic demand
- B** Have a positive cross elasticity of demand
- C** Are inferior goods with a price elastic demand
- D** Are normal goods with a price inelastic demand.

Answer

Explanation

(3)

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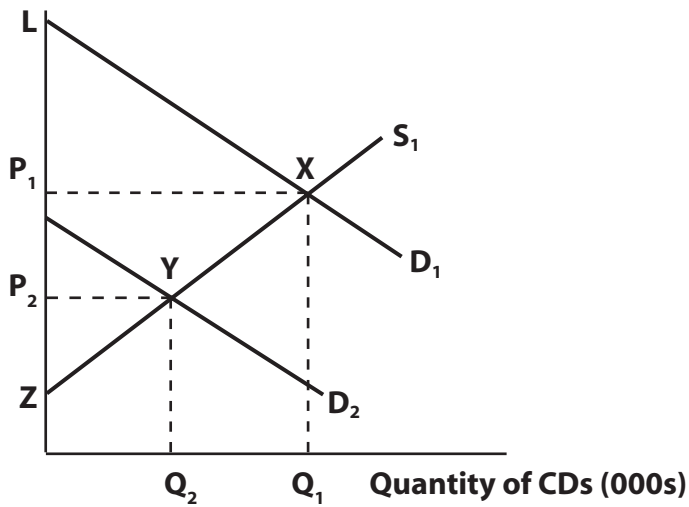
(Total for Question 3 = 4 marks)



4

Music CD market

Price per CD (£)



The diagram shows the market for music CDs. A decrease in demand from D_1 to D_2 will cause a loss of producer surplus equal to the area:

(1)

- A P_1XL
- B P_1XZ
- C P_2YZ
- D P_1XYP_2

Answer

Explanation

(3)

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(Total for Question 4 = 4 marks)



5 One disadvantage a sandwich making firm may experience from the division of labour on its production line is an increase in:

(1)

- A The range of workers' skills
- B Training costs per worker
- C Staff turnover
- D Productivity.

Answer

Explanation

(3)

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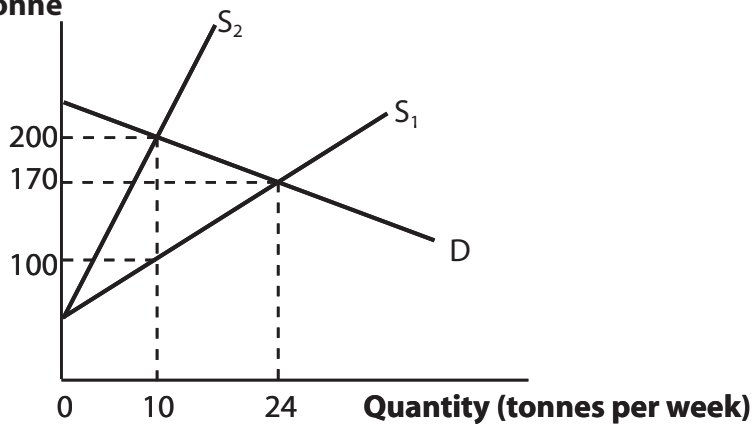
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(Total for Question 5 = 4 marks)



6 Price (£) per tonne



The diagram shows how a tax imposed on a product causes its supply curve to move from S₁ to S₂.

Which of the following best describes the market situation shown?

(1)

- A It is an *ad valorem* tax and its incidence falls mainly on producers
- B It is a specific tax and its incidence falls mainly on consumers
- C It is an *ad valorem* tax and its incidence mainly falls on consumers
- D It is a specific tax and its incidence falls mainly on producers.

Answer

Explanation

(3)

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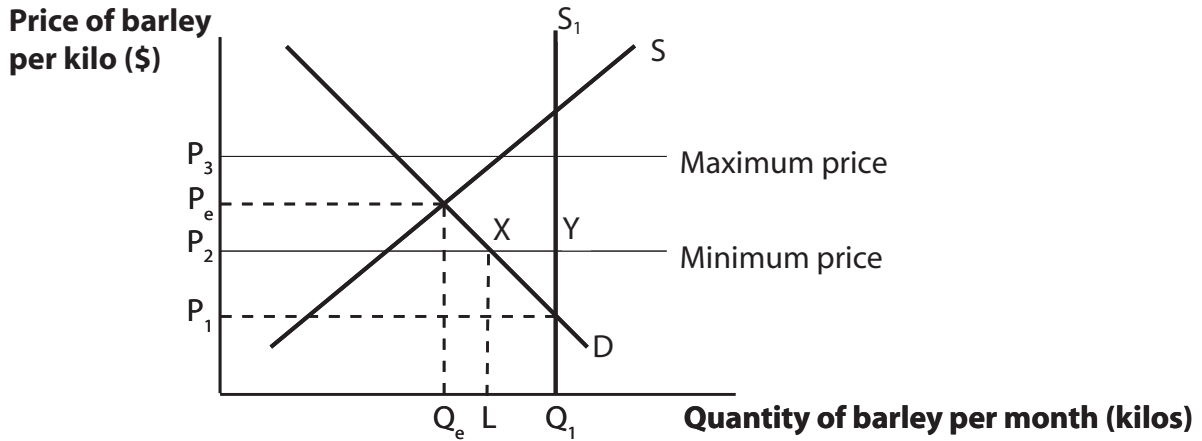
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Total for Question 6 = 4 marks)



7

The market for barley



The diagram shows the operation of a buffer stock scheme in the barley market where a government agency intervenes to ensure the price remains between P_2 and P_3 . A harvest of S_1 for a given year will cause:

(1)

- A An excess demand for barley
- B The government agency to buy barley and add to its stockpile
- C Price to increase to P_3
- D The government agency to sell barley from its stockpile.

Answer

Explanation

(3)

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(Total for Question 7 = 4 marks)



8 Which of the following is most likely to increase the **occupational** mobility of labour? (1)

- A An increase in the provision of public goods
- B An increase in the Stamp duty on buying a property
- C Training programmes for the unemployed
- D Relocation subsidies to workers.

Answer

Explanation (3)

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(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A: 32 MARKS



Section B: Answer either Question 9 or Question 10.

If you answer Question 9 put a cross in this box .

Question 10 starts on page 26.

You should spend 55 minutes on this section.

9 The National Health Service

Extract 1 NHS funding

The National Health Service (NHS) is the largest employer in Europe with more than 1.3 million staff. It treats over 1 million patients every 36 hours. Between 1997 and 2008 government spending on the NHS increased in real terms from £58.5 billion to £115 billion and accounted for 8.3 per cent of GDP. Spending is planned to increase further to £127 billion by 2011. This reflects growing demand and cost pressures on the health care budget, following an ageing population, advances in medical care and rising staff costs. Staff wages now account for 40 per cent of the NHS budget. 5

However, the huge increases in NHS funding are set to come to an end after 2011 as government spending must be reduced following the impact of the recession. The government has identified ways to increase NHS efficiency by driving down the prices for goods and services it buys, reducing staff sickness, cutting its investment in computer software, improving the use of its buildings and lowering its energy consumption. 10

Some progress has already been made as the average length of inpatient stay in hospital has fallen from 8.8 days to 6.3 days between 1997 and 2008. 15

Source: adapted from: www.kingsFund.org.uk

Extract 2 The growth in NHS management

The number of NHS managers in England rose by nearly 12 per cent in 2009 – more than five times the rate at which qualified nurses were recruited, leading to concerns that cash is being diverted from direct patient care.

Dr Keith Brent, Chairman of the British Medical Association's Consultants Committee, said that "many of the additional managerial staff have been employed to help the NHS deal with the increasing bureaucracy and fragmentation that have accompanied greater competition, with little or no evidence of benefit to patients." 5

Source: adapted from 'NHS management increasing five times faster than number of nurses', Randeep Ramesh, *The Guardian*, 25th March 2010.



Figure 1 NHS hospital beds 1997–2008

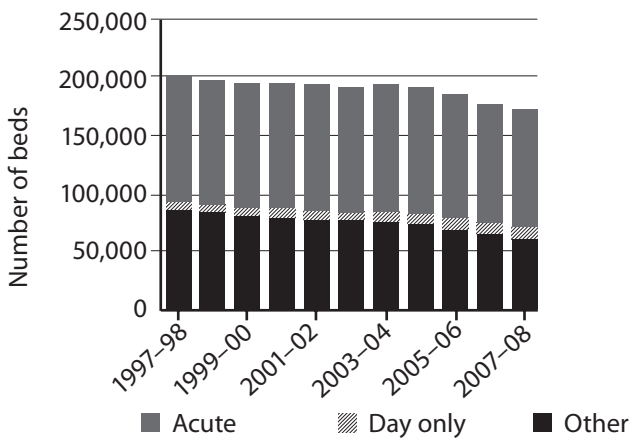
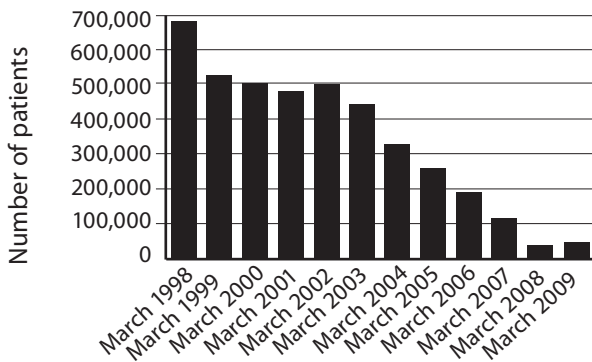
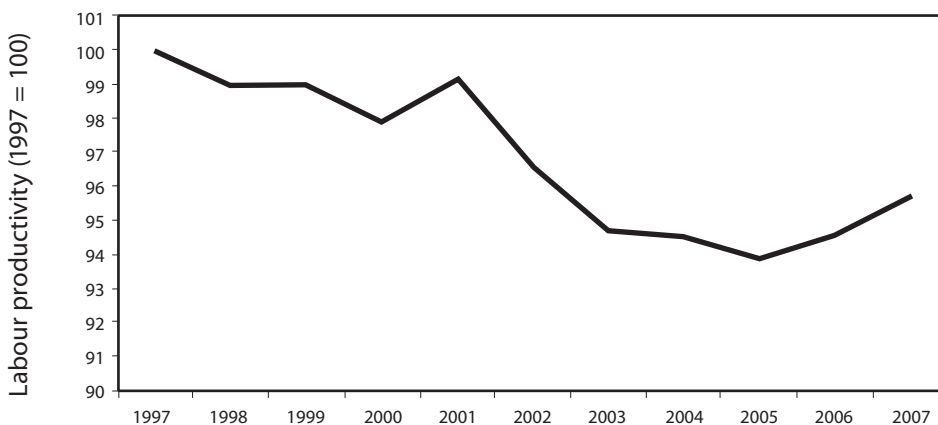


Figure 2 NHS: number of patients waiting for over 13 weeks for inpatient admission 1998–2009



Source: Figures 1 and 2: www.statistics.gov.uk/hub/health-social-care/health-care-system/hospitals-and-health-care-facilities/index.html

Figure 3 Productivity in the NHS 1997–2007



Source: www.statistics.gov.uk/articles/nojournal/TotalPublicServiceFinalv5.pdf



- (a) Using examples, explain the significance of opportunity cost to the increase in government spending on the NHS referred to in Extract 1. (4)
- (b) Explain **two** possible causes of the 'growing demand and cost pressures on the health care budget' (*Extract 1, lines 5–6*). (6)
- (c) Examine the possible impact on the production possibility frontier for the economy of the increase in government spending on the NHS referred to in Extract 1. Illustrate your answer with an appropriate diagram. (10)
- * (d) Apart from a shift in the production possibility frontier, assess the private and external benefits arising from the consumption of health care. Illustrate your answer with an appropriate diagram. (14)
- * (e) To what extent does the information provided suggest evidence of government failure? (14)



(a) Using examples, explain the significance of opportunity cost to the increase in government spending on the NHS referred to in Extract 1.

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Question 9 continues on the next page.



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* (d) Apart from a shift in the production possibility frontier, assess the private and external benefits arising from the consumption of health care. Illustrate your answer with an appropriate diagram.

(14)

A large rectangular area with rounded corners, containing 25 horizontal dotted lines for writing the answer.



Handwriting practice area with 25 horizontal dotted lines.



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Question 9 continues on the next page.



***(e)** To what extent does the information provided suggest evidence of government failure?

(14)

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(Total for Question 9 = 48 marks)



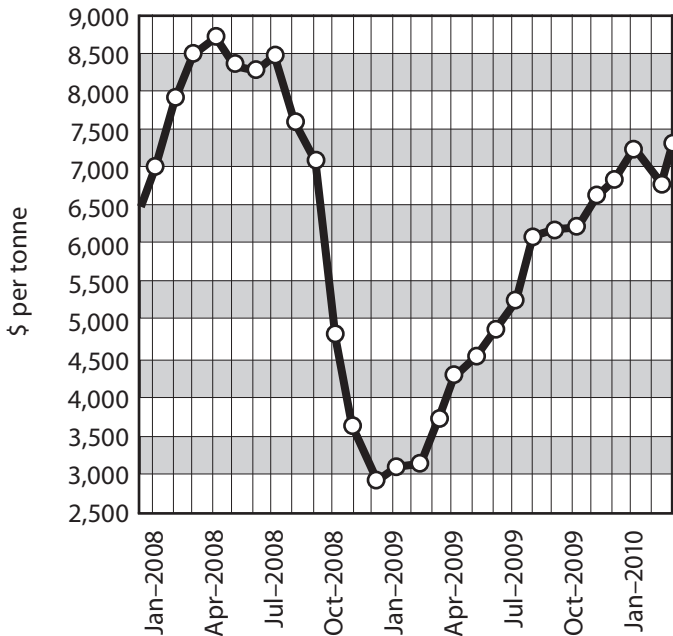
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If you answer question 10 put a cross in this box .

10 The market for copper

Figure 1 Copper prices, January 2008–March 2010



Source: www.lme.com/copper_charts.asp

Extract 1 Unstable copper prices

The price of copper has been highly unstable over the past year. It collapsed from a record level of \$8,940 in April 2008 to \$2,871 per tonne by December of that year. The steep drop in price followed lower global economic growth, especially from China. The decrease in demand was most noticeable in the motor vehicle and construction sectors which use vast amounts of the metal. Its impact was to reduce profits and share prices of major copper mining companies such as Chile's Antofagasta.

5

However, by March 2010, copper prices recovered to almost \$7,500 per tonne. This followed disruption to supply in several major copper mines in Chile due to a severe earthquake and a series of strikes by miners, demanding a 7.5% pay rise. The global economy has also recovered from the recession and China is expected to achieve an economic growth rate of 9.5% in 2010. The dramatic fluctuations in copper prices have led some analysts to propose a guaranteed minimum price scheme.

10

Source: Adapted from 'Miners dragged lower as price of copper tumbles', Peter Stiff, *The Times*, 19th December 2009.



Extract 2 Proposals for a major copper mine in Bristol Bay, Alaska

Rising copper prices has made it profitable to open new mines. The mining companies Northern Dynasty and Anglo-American Corporation have jointly proposed creating North America's largest open pit mine at Pebble Mill in Bristol Bay, Alaska. It would be 3.2 kilometres long and 610 metres deep. It would also involve building the largest dam in the world to hold back the vast amount of toxic waste created in the mining process. The dam, made of earth rather than concrete, would be 220 metres high and 7 kilometres long. It takes a thousand tonnes of copper ore to produce just one tonne of copper metal.

5

However, Bristol Bay is home to the world's most productive wild salmon fishery and there is concern that pollution from the mines would destroy the \$400 million a year fishing and canning industries, as well as having a negative impact on tourism. The area already has a history of earthquakes and severe flooding which increase the chances of pollution from the mining project. The local native communities strongly oppose the scheme and the planning enquiry is expected to take several years.

10

Source: Adapted from Pebble mine – Bristol Bay Alaska
www.renewableresourcescoalition.org/project_outline.htm
www.ourbristolbay.com/commerical-fisheries.html

- (a) With reference to the first paragraph of Extract 1, explain the cause of the decrease in copper prices between April and December 2008. Illustrate your answer with a supply and demand diagram. (4)
- (b) With reference to Extract 1, explain whether you think copper is a normal or an inferior good. (6)
- (c) With reference to the information provided and your own knowledge, assess whether the supply of copper is likely to be price elastic or price inelastic. (10)
- *(d) Evaluate the likely economic effects of a guaranteed minimum price scheme to reduce fluctuations in the price of copper. Illustrate your answer with a supply and demand diagram. (14)
- *(e) Using the concept of external costs, assess the possible economic effects of building the Pebble Mill copper mine in Alaska, referred to in Extract 2. Use an appropriate diagram in your answer. (14)



(a) With reference to the first paragraph of Extract 1, explain the cause of the decrease in copper prices between April and December 2008. Illustrate your answer with a supply and demand diagram.

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(b) With reference to Extract 1, explain whether you think copper is a normal or an inferior good.

(6)

Dotted lines for writing the answer.



(c) With reference to the information provided and your own knowledge, assess whether the supply of copper is likely to be price elastic or price inelastic.

(10)

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Question 10 continues on the next page.



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(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B: 48 MARKS
TOTAL FOR PAPER: 80 MARKS



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