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**Edexcel GCE**

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# Economics

**Advanced Subsidiary**

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

Monday 15 May 2017 – 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 in 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.
- Check your answers if you have time at the end.

Turn over ►

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2 **Statement 1:** In the March 2016 Budget the Chancellor of the Exchequer announced a tax increase on tobacco of 2% above the rate of inflation.

**Statement 2:** The increase in the tax on tobacco is unjustified since it takes up a high proportion of the income of the low paid.

Which **one** of the following best describes the two statements above? (1)

- A Statement 1 is normative and statement 2 is positive
- B Both statements are normative
- C Statement 1 is positive and statement 2 is normative
- D Both statements are positive

Answer

**Explanation** (3)

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**(Total for Question 2 = 4 marks)**

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3

Type of passenger flight	Income elasticity of demand
Short haul	1.6
Long haul	1.8

(Source: [https://www.iata.org/whatwedo/documents/economics/air\\_travel\\_demand.pdf](https://www.iata.org/whatwedo/documents/economics/air_travel_demand.pdf))

The table shows estimated income elasticities of demand for short haul and long haul passenger flights in the United States.

It may be deduced from the data in the table that

(1)

- A demand is income elastic for both short haul and long haul passenger flights
- B demand for short haul passenger flights with regard to a change in price of long haul passenger flights is positive
- C a fall in real income would lead to a proportionately greater increase in demand for long haul passenger flights compared to short haul passenger flights
- D price elasticity of supply of long haul passenger flights exceeds that of short haul passenger flights

Answer

Explanation

(3)

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(Total for Question 3 = 4 marks)

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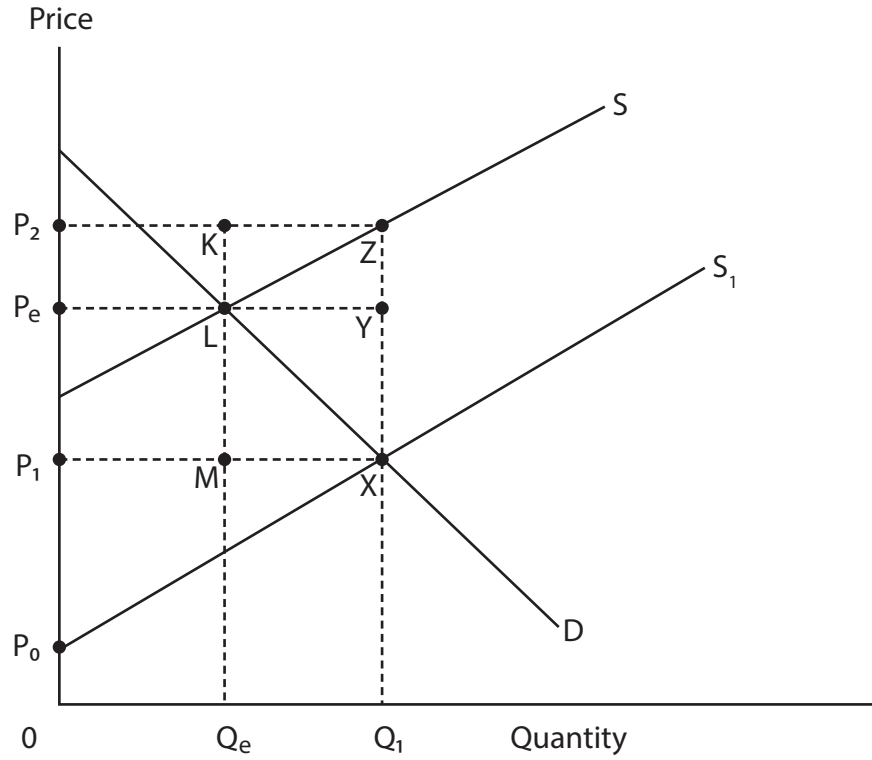
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The diagram shows the impact of a unit subsidy on the market for bus travel. Which **one** of the following is correct?

(1)

- A The total cost of the subsidy is  $P_1P_2ZX$
- B The producer surplus increases to  $P_0XYP_e$
- C The producer subsidy exceeds the consumer subsidy
- D The consumer surplus increases to  $P_2P_1XZ$

Answer

Explanation

(3)

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(Total for Question 4 = 4 marks)



5 In 2016, Tata Steel announced plans to close its iron and steel factories in England and Wales. This could lead to 40 000 job losses.

Which **one** of the following measures is most likely to increase the occupational mobility of labour?

(1)

- A A subsidy to firms that relocate to areas of high unemployment
- B An increase in benefits for the unemployed
- C A subsidy to the unemployed to relocate to areas of low unemployment
- D An increase in the provision of retraining schemes

Answer

Explanation

(3)

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**(Total for Question 5 = 4 marks)**



6 In April 2016, the minimum wage that must be paid to workers in the UK aged 25 years and over was increased to £7.20 per hour.

The most likely effect of this wage increase is that

(1)

- A firms will employ more workers aged 25 years and over
- B people aged 25 years and over will be more willing to work
- C firms will replace workers aged less than 25 years with older workers
- D firms will replace machinery with labour in the production process

Answer

Explanation

(3)

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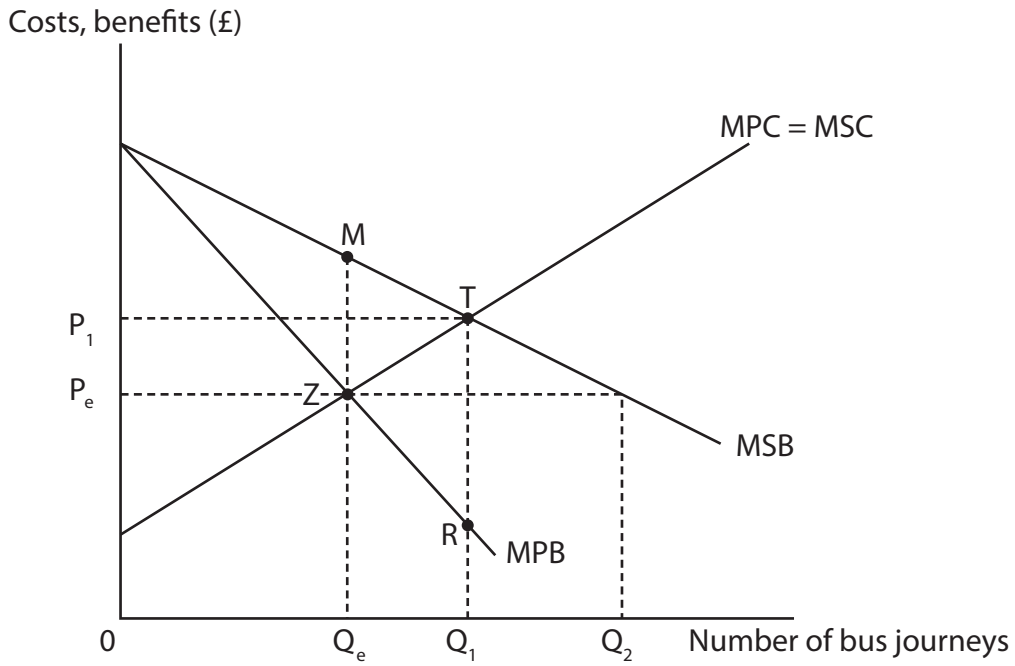
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(Total for Question 6 = 4 marks)





The diagram shows the market for bus travel in which the current equilibrium quantity is  $Q_e$  and price  $P_e$ . At this number of bus journeys there is

(1)

- A government failure
- B an excess supply of  $Q_e Q_2$
- C market failure
- D a welfare loss of TZR

Answer

Explanation

(3)

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(Total for Question 7 = 4 marks)





8 Which **one** of the following statements about public goods is true?

(1)

- A They are only provided by the price mechanism
- B They involve no opportunity cost in their provision
- C Their production uses no scarce resources
- D They are characterised by the free rider problem

Answer

Explanation

(3)

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**(Total for Question 8 = 4 marks)**

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**TOTAL FOR SECTION A = 32 MARKS**



SECTION B

Answer EITHER Question 9 OR Question 10.

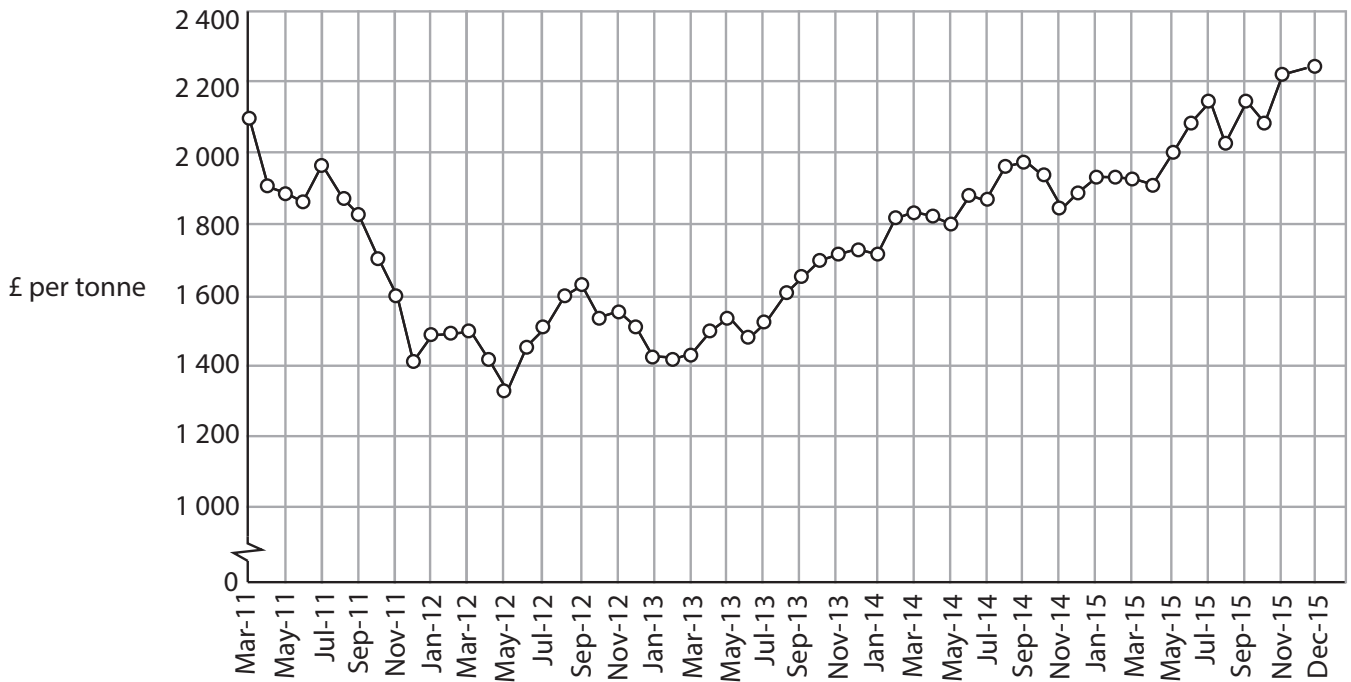
If you answer Question 9 put a cross in the box  .

Question 10 starts on page 24.

You should spend 55 minutes on this section.

9 The price of cocoa

Figure 1 Cocoa prices, March 2011 – December 2015



(Source: <http://www.indexmundi.com/commodities/?commodity=cocoa-beans&months=60&currency=gbp>)

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### Extract 1 Fluctuations in cocoa prices

The price of cocoa has risen to record levels following poor harvests in West Africa. Between November 2014 and December 2015 cocoa prices increased from £1 840 to £2 230 per tonne. Strong winds from the El Nino weather effect led to drought conditions damaging the cocoa crop. Traders have also purchased extra cocoa in advance for fears of a shortage next year, raising prices further according to Edward George at Ecobank, a major African bank. 5

Three quarters of global production remains concentrated in just a few West African countries such as Ivory Coast, the world's biggest producer. Cocoa trees take five years to grow to maturity and the availability of suitable land for expansion is severely limited. 10

Cocoa is subject to enormous price fluctuations. This creates instability in income, employment and investment among cocoa farmers. The governments of West Africa are considering a buffer stock scheme which aims to adjust supply between good and poor harvests to stabilise the cocoa market. However, such a scheme failed some thirty years ago because of funding problems and difficulties in organising the thousands of cocoa farmers. 15

(Source: adapted from 'El Nino pushes up price of chocolate',  
Robin Pagnamenta, *The Times*, 30 November 2015)

### Extract 2 Chocolate prices set to rise

Cocoa is a key ingredient in making chocolate products. The increase in cocoa prices is almost certain to lead to a rise in the price of premium brands of chocolate such as Godiva and Lindt, which contain high levels of cocoa. However, for standard chocolate brands such as Mars and Cadbury, higher cocoa prices may have little impact on the price of chocolate bars. The producers may seek to avoid raising prices by reducing the size of the chocolate bars or altering the ingredients. 5

In the long term, as emerging markets continue to grow, demand for cocoa from China and India is likely to increase. Consumers in these countries are developing a strong taste for chocolate.

(Source: adapted from 'El Nino pushes up price of chocolate',  
Robin Pagnamenta, *The Times*, 30 November 2015)



- (a) With reference to the first paragraph of Extract 1, explain the causes of the increase in cocoa prices between November 2014 and December 2015. Illustrate your answer with a supply and demand diagram. (6)
- (b) With reference to Extract 1 and your own knowledge, explain whether the supply of cocoa is likely to be price elastic or price inelastic. (4)
- (c) With reference to Extract 2, examine the likely impact of the rise in the price of cocoa on the producers of chocolate products such as Godiva, Lindt, Mars and Cadbury. (10)
- \*(d) Evaluate the likely effects of fluctuations in cocoa prices on cocoa producers. (14)
- \*(e) Assess the likely success of a buffer stock scheme as a means of stabilising the price and supply of cocoa. Use an appropriate diagram in your answer. (14)



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(a) With reference to the first paragraph of Extract 1, explain the causes of the increase in cocoa prices between November 2014 and December 2015. Illustrate your answer with a supply and demand diagram.

(6)

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(b) With reference to Extract 1 and your own knowledge, explain whether the supply of cocoa is likely to be price elastic or price inelastic.

(4)

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(c) With reference to Extract 2, examine the likely impact of the rise in the price of cocoa on the producers of chocolate products such as Godiva, Lindt, Mars and Cadbury.

(10)

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\*(d) Evaluate the likely effects of fluctuations in cocoa prices on cocoa producers.

(14)

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\*(e) Assess the likely success of a buffer stock scheme as a means of stabilising the price and supply of cocoa. Use an appropriate diagram in your answer.

(14)

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If you answer Question 10 put a cross in the box  .

## 10 Bottled water

Figure 1 UK bottled water market

Year	Consumption (million litres)	Sales revenue (£ million)
2008	1 970	1 380
2009	2 010	1 400
2010	2 020	1 420
2011	2 070	1 500
2012	2 140	1 570
2013	2 360	1 770
2014	2 580	1 960

(Source: [http://www.britishsoftdrinks.com/write/MediaUploads/Publications/BSDA\\_Annual\\_Report\\_2015.pdf](http://www.britishsoftdrinks.com/write/MediaUploads/Publications/BSDA_Annual_Report_2015.pdf))

### Extract 1 Growth in UK bottled water sales

The consumption of bottled water has continued to grow at a time of falling demand for other types of soft drink such as fruit juices, smoothies and fizzy colas. The growth in demand for bottled water reflects successful promotions and more people trying to follow healthier lifestyles.

The potential for further growth is very positive: annual bottled water consumption per head in the UK is 41 litres, which is far below the West European average of 119 litres. 5

The recycling of bottles and cans has increased rapidly over the past decade; many containers are now produced with 25–50% recycled materials. Of the bottled water consumed in the UK around 73% is bottled in the UK, including most supermarket own brand water. 15% comes from France, including premium brands such as Badoit and Perrier. 10

(Source: adapted from [www.britishsoftdrinks.com/PDF/2013UKsoftdrinksreport](http://www.britishsoftdrinks.com/PDF/2013UKsoftdrinksreport))





## Extract 2 Environmental damage from bottled water

Water is a precious resource. Governments should ensure the sustainability of safe water supplies for the benefit of all people and the natural environment.

The use of bottled water is harmful to the environment. Three litres of water are used directly or indirectly in the production of one litre of bottled water. The majority of bottles are made of plastic and end up in landfill sites rather than being recycled. 5

Furthermore, vast amounts of plastic waste never reach the recycling plants but end up in the oceans, killing fish and birds who mistake it for food. It takes up to a thousand years for plastic to decompose and so the problem is set to get worse.

Bottled water is often transported hundreds of miles from its origin to shops and consumers, at considerable carbon cost. By contrast, tap water only takes a little energy to pump along pipelines into homes. 10

Bottled water is also expensive and consumers can pay anything up to 10 000 times more than if they just drank tap water. Studies have shown that tap water is generally just as clean and healthy as bottled water, if not more so. Furthermore, over half of the bottled water in the UK comes from purified tap water. It is time for the UK Government to intervene by increasing the indirect tax on bottled water. 15

(Source: adapted from <http://www.guardian.co.uk/commentisfree/2007/jul/10/timetocapbottledwater?INTCMP=SRCH> and [http://www.sierraclub.org/committees/cac/water/bottled\\_water/bottled\\_water.pdf](http://www.sierraclub.org/committees/cac/water/bottled_water/bottled_water.pdf))

- (a) With reference to Extract 1 and Figure 1, explain the effect on the total revenue of bottled water manufacturers following an increase in demand for bottled water between 2008 and 2014. Use a supply and demand diagram in your answer. (6)
- (b) Explain **two** likely reasons why 'the consumption of bottled water has continued to grow at a time of falling demand for other types of soft drink' (Extract 1, lines 1 and 2). (4)
- (c) Assess whether the demand for bottled water is likely to be price elastic or price inelastic. (10)
- \* (d) With reference to the concept of external costs, discuss the possible economic effects of an increase in the production and consumption of bottled water. (14)
- \* (e) Evaluate the likely economic effects of an increase in the indirect tax on bottled water. Use a supply and demand diagram in your answer. (14)



(a) With reference to Extract 1 and Figure 1, explain the effect on the total revenue of bottled water manufacturers following an increase in demand for bottled water between 2008 and 2014. Use a supply and demand diagram in your answer.

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(b) Explain **two** likely reasons why 'the consumption of bottled water has continued to grow at a time of falling demand for other types of soft drink' (Extract 1, lines 1 and 2).

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(c) Assess whether the demand for bottled water is likely to be price elastic or price inelastic.

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\*(d) With reference to the concept of external costs, discuss the possible economic effects of an increase in the production and consumption of bottled water.

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\*(e) Evaluate the likely economic effects of an increase in the indirect tax on bottled water. Use a supply and demand diagram in your answer.

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**TOTAL FOR SECTION B = 48 MARKS**  
**TOTAL FOR PAPER = 80 MARKS**



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