

Paper Reference 9EC0/01
Pearson Edexcel
Level 3 GCE

Total Marks

Economics A
Advanced
Paper 1: Markets and Business Behaviour

Tuesday 5 June 2018 – Afternoon

Time: 2 hours plus your additional time allowance.

In the boxes below, write your name, centre number and candidate number.

Surname					
Other names					
Centre Number					
Candidate Number					

You do not need any other materials.

YOU WILL BE GIVEN

Data Book

INSTRUCTIONS

There are three sections in this question paper. Answer ALL questions from Section A and Section B. Answer ONE question from Section C.

Answer the questions in the spaces provided in this question paper – there may be more space than you need.

INFORMATION

The total mark for this paper is 100

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

SECTION A

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

Some questions are multiple choice. Write the letter(s) of your chosen answer(s) in the box(es) provided.

You are advised to spend 30 minutes plus some of your additional time allowance on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

Turn over

1. Refer to the diagram for Question 1 in the Data Book.

It refers to production possibility frontiers for a country that produces capital goods and consumer goods.

Originally, the economy has a production possibility frontier shown by the line **XY**, operating at point **V**

The production possibility frontier then moves to **XZ**, operating at point **U**

- (a) Calculate the ORIGINAL and the NEW opportunity cost of producing **50** capital goods.

You are advised to show your working.

(2 marks)

Answer lines continue on the next page.

Turn over

1. (a) continued.

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Turn over

1. continued.

(b) Which ONE of the following was the most likely cause of the movement in the production possibility frontier from XY to XZ?

- A A reduction in unemployment in consumer goods industries**
- B A rise in the cost of producing consumer goods**
- C An increase in demand for consumer goods**
- D A technological improvement in the production of consumer goods**

Answer

(1 mark)

(continued on the next page)

Turn over

1. continued.

(c) Explain ONE characteristic of the economy at position W

(2 marks)

Answer lines continue on the next page.

[illegible]

Turn over

1. (c) continued.

(Total for Question 1 = 5 marks)

Turn over

2. The number of individual weekly ticket sales from UK National Lottery games operated by Camelot was **73** million in the financial year **2015–2016**

The sale price of each lottery ticket was **£2**

This figure included **24** pence of tax revenue on each ticket sold.

- (a) Calculate the weekly revenue received by Camelot after paying the tax to the government. You are advised to show your working.
(2 marks)

Answer lines continue on the next two pages.

Turn over

2. (a) continued.

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Turn over

2. (a) continued.

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Turn over

2. continued.

Research conducted for HMRC estimated the cross elasticity of demand for using gaming machines to be 1.28 in response to changes in the price of national lottery tickets.

(Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322845/report313.pdf)

In October 2013 Camelot increased the price of a national lottery ticket from £1 to £2

(b) Explain the likely impact of the price increase of national lottery tickets on the demand for using gaming machines.

(2 marks)

Answer lines continue on the next two pages.

Turn over

2. (b) continued.

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2. (b) continued.

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2. continued.

In **2016** a coastal flood defence scheme was completed at Broomhill Sands in Kent, protecting people, homes and businesses. A **£30** million grant from the National Lottery paid for the scheme.

(Source: <https://www.gov.uk/government/news/30-million-project-set-to-reduce-flood-risk-in-kent>)

(c) The most likely reason for this grant is to ensure the:

- A** exclusivity of Broomhill Sands
- B** provision of a private good
- C** provision of a public good
- D** rivalry of Broomhill Sands

Answer

(1 mark)

(Total for Question 2 = 5 marks)

Turn over

3. The average fee charged by high–street estate agents to homeowners for selling property is 1.3% of the final sale price.

(Source: <http://www.which.co.uk/money/mortgages-and-property/home-movers/guides/selling-a-house/estate-agent-fees-and-contracts>)

- (a) Assume the selling fee is 1.3%

Calculate the payment received by an estate agent on a property sold for £489 000

You are advised to show your working.

(2 marks)

Answer lines continue on the next two pages.

Turn over

3. (a) continued.

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3. (a) continued.

(continued on the next page)

Turn over

3. continued.

In August 2016 the Office for National Statistics reported that the average house price in London was £489 000, whereas in the North East of England it was £127 000

(b) The ratio of the average house price in London to the average house price in the North East of England is:

A 0.26

B 3.62

C 3.85

D 7.40

Answer

(1 mark)

(continued on the next page)

Turn over

3. continued.

(c) Explain ONE likely reason for the difference in average house prices between London and the North East of England.

(2 marks)

Answer lines continue on the next page.

3. (c) continued.

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(Total for Question 3 = 5 marks)

Turn over

4. Refer to the diagram for Question 4 in the Data Book.

Emily owns and operates a nail ink salon. The diagram shows the cost and revenue curves for treatments at her nail ink salon. Initially, Emily sets her price to maximise profits.

- (a) Calculate the **CHANGE IN TOTAL SUPERNORMAL PROFIT** if Emily changes her objective from profit maximisation to revenue maximisation.

You are advised to show your working.

(4 marks)

Answer lines continue on the next two pages.

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4. (a) continued.

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4. continued.

(b) Emily now decides to change her objective from revenue maximisation to sales maximisation.

This change will lead to:

A a decrease in the number of customers

B a decrease in the price of treatments

C an increase in productive efficiency

D an increase in the level of profit

Answer

(1 mark)

(Total for Question 4 = 5 marks)

Turn over

5. Refer to the diagram for Question 5 in the Data Book.

The graph shows the global sales of personal computers (PCs) between **2011** and **2015**

- (a) The percentage decrease in sales of PCs between **2011** and **2015** is:

A 21·5

B 27·3

C 31·5

D 75·7

Answer

(1 mark)

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Turn over

5. continued.

(b) Explain ONE likely reason for the decrease in sales of PCs.

(2 marks)

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Turn over

5. (b) continued.

[illegible]

Turn over

5. (b) continued.

(continued on the next page)

Turn over

5. continued.

Refer to the table for Question 5(c) in the Data Book.

The table shows global sales of PCs by company in 2015

(c) Calculate the five–firm concentration ratio.

You are advised to show your working.

(2 marks)

Answer lines continue on the next page.

Turn over

5. (c) continued.

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS

Turn over

SECTION B

Read Figure 1, Figure 2, Extract A, Extract B and Extract C in the Data Book before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour plus some of your additional time allowance on this section.

Turn over

6. The UK energy market

- (a) With reference to Figure 1, explain ONE likely reason for the overall trend in the real price of gas and electricity.
(5 marks)**
- (b) With reference to Extract A, discuss the likely effectiveness of ‘measures to open up and increase competition’ in the UK energy market.
(12 marks)**
- (c) With reference to Extract B, assess how the regulation of energy suppliers’ profits is likely to affect consumers AND suppliers in the energy market.
(10 marks)**

(continued on the next page)

Turn over

6. continued.

The price elasticity of demand for electricity in the UK is estimated to be -0.35 in the short run and -0.85 in the long run.

(d) With reference to Extract A and your own knowledge, examine TWO possible reasons for the change in price elasticity of demand for electricity over time.

(8 marks)

(e) With reference to Extract C and your own knowledge, discuss policies businesses AND government might implement to reduce labour immobility to benefit the energy sector.

(15 marks)

(continued on the next page)

Turn over

6. continued.

(a) With reference to Figure 1, explain ONE likely reason for the overall trend in the real price of gas and electricity.

(5 marks)

Answer lines continue on the next two pages.

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6. (a) continued.

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6. (a) continued.

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Turn over

6. continued.

- (b) With reference to Extract A, discuss the likely effectiveness of 'measures to open up and increase competition' in the UK energy market.
(12 marks)

Answer lines continue on the next six pages.

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6. (b) continued.

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Turn over

6. continued.

(c) With reference to Extract B, assess how the regulation of energy suppliers' profits is likely to affect consumers AND suppliers in the energy market.

(10 marks)

Answer lines continue on the next four pages.

6. (c) continued.

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6. continued.

The price elasticity of demand for electricity in the UK is estimated to be -0.35 in the short run and -0.85 in the long run.

(d) With reference to Extract A and your own knowledge, examine TWO possible reasons for the change in price elasticity of demand for electricity over time.

(8 marks)

Answer lines continue on the next four pages.

Turn over

6. (d) continued.

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6. continued.

(e) With reference to Extract C and your own knowledge, discuss policies businesses AND government might implement to reduce labour immobility to benefit the energy sector.

(15 marks)

Answer lines continue on the next six pages.

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(Total for Question 6 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS

Turn over

SECTION C

Answer ONE question from this section.

Write your answer in the space provided.

You are advised to spend 30 minutes plus some of your additional time allowance on this section.

Turn over

EITHER

7. In September **2016** the government approved the building of an **£18** billion nuclear power station, **Hinkley Point C**, which will supply **7%** of UK electricity for up to **60** years. The power station is funded by Chinese and French investment.

Evaluate the likely private costs and external costs involved in such major power station construction projects. Use an appropriate externalities diagram in your answer.

(Total for Question 7 = 25 marks)

OR

8. In July **2016** Apple's share of the UK market for smartphones was **38%**

Evaluate whether such a high market share for one company is in the consumer interest. Use appropriate diagrammatic analysis in your answer.

(Total for Question 8 = 25 marks)

Turn over

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 7

☐

Question 8

☐

Begin your answer here:

(25 marks)

Answer lines continue on the next fourteen pages.

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TOTAL FOR SECTION C = 25 MARKS

TOTAL FOR PAPER = 100 MARKS

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