

**Paper Reference 8EC0/01**  
**Pearson Edexcel**  
**Level 3 GCE**

Total Marks
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**Economics A**  
**Advanced Subsidiary**  
**Paper 1: Introduction to Markets**  
**and Market Failure**

**Monday 15 May 2017 – Morning**

**Time: 1 hour 30 minutes plus your  
additional time allowance.**

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

<b>Surname</b>					
<b>Other names</b>					
<b>Centre Number</b>					
<b>Candidate Number</b>					

**Y49600A**

**YOU WILL BE GIVEN**

**Data Book**

**INSTRUCTIONS**

**There are two sections in this question paper.**

**Answer ALL questions in Section A.**

**In Section B, answer ALL of questions 6(a) to 6(e) and ONE question from 6(f) or 6(g).**

**Answer the questions in the spaces provided in this Question Paper or in the Data Book – 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.**

**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.**

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## **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 25 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 table for Question 1 in the Data Book. The production possibility frontier for an economy is shown in the table.**

**(a) Explain, using marginal analysis from the table, the concept of opportunity cost. (You may use the last column in answering the question.)**

**(3 marks)**

**Answer lines continue on the next three pages.**

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1. (a) continued.

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(continued on the next page)

Turn over

1. continued.

(b) Which ONE of the following is the most likely effect of an economy producing more capital goods?

- A Reduced specialisation of labour
- B A shift in the production possibility frontier
- C A reduction in marginal utility
- D A shift in demand for consumer goods

Answer

(1 mark)

(Total for Question 1 = 4 marks)

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Turn over

**2. Refer to the table for Question 2 in the Data Book. It shows UK wheat production between 2010 and 2015**

**(a) Define the term 'base year'.**

**(1 mark)**

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**(continued on the next page)**

**2. continued.**

**(b) Calculate the index numbers for 2011 and 2012, using 2010 as the base year.**

**(2 marks)**

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**(continued on the next page)**

**Turn over**

2. continued.

(c) The percentage change in wheat production from 2014 to 2015 was:

A 0·03

B -2·87

C -2·95

D -477

Answer

(1 mark)

(Total for Question 2 = 4 marks)

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Turn over

**3. In 2015 the UK government cut subsidies for the installation of solar energy panels.**

**(a) Define the term 'subsidies'.  
(1 mark)**

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**(continued on the next page)**

**3. continued.**

**(b) The most likely effect of cutting subsidies for the installation of solar panels is to:**

- A increase producer surplus**
- B decrease the provision of public goods**
- C decrease consumer surplus**
- D increase government expenditure**

**Answer**

**(1 mark)**

**(continued on the next page)**

**Turn over**

**3. continued.**

- (c) Refer to the diagram for Question 3 in the Data Book. Annotate the diagram to show the effect of removing the solar panel installation subsidy on the equilibrium price and quantity.**
- (2 marks)**

**(Total for Question 3 = 4 marks)**

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4. The excess supply of carbon steel has recently caused its global price to fall below **\$530** per tonne.

(Source: adapted from <http://www.meps.co.uk/allproducts%20steel%20price.htm>)

- (a) Explain how the price mechanism responds to excess supply in a free market.

(3 marks)

Answer lines continue on the next three pages.

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4. (a) continued.

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**(continued on the next page)**

**Turn over**

**4. continued.**

**Steel production leads to high levels of carbon emissions.**

**(b) Which ONE of the options on the next page is likely to result in an increase in carbon emissions?**

**(continued on the next page)**

4. (b) continued.

**A** Introducing a tradable pollution permits scheme

**B** Shutting down steel factories

**C** Subsidising the steel industry to install cleaner technology

**D** Reducing indirect taxes on steel products

Answer

(1 mark)

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

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**Turn over**

- 5. Universities UK raised concerns about the proposal to reduce the maximum tuition fees (fee cap) for undergraduate courses in England from £9 000 to £6 000. It stated “This unfunded proposal to reduce the fee cap would damage the quality of experience our universities could deliver to students and remove opportunities for those seeking to benefit from a university education”.**

**(Source: adapted from tuition fees 2015 Times letter Universities UK <http://www.universitiesuk.ac.uk/highereducation/Pages/UUKboardFeesLetter.aspx#.VjoQRbfhDIU>)**

**(continued on the next page)**

**Turn over**

**5. continued.**

**(a) Explain why reducing the tuition fee cap may result in excess demand for university places.**

**(3 marks)**

**Answer lines continue on the next two pages.**

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**Turn over**





5. continued.

(b) Which ONE of the following statements is correct?

- A** The marginal social benefits exceed the marginal private benefits from university education
- B** University education is an inferior good
- C** University education is a public good
- D** The social optimum equilibrium quantity is less than the market equilibrium quantity for university education

Answer  (1 mark)

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

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**TOTAL FOR SECTION A = 20 MARKS**

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Turn over

**SECTION B**

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

**Answer ALL Question 6 (a) to 6 (e), and EITHER Question 6 (f) OR Question 6 (g).**

**You are advised to spend 1 hour and 5 minutes plus some of your additional time allowance on this section.**

**Turn over**

**6. (a) Explain why ‘bans on tobacco advertising’ (Extract A, line 9) may result in a decrease in the revenue of tobacco firms. Include a supply and demand diagram in your answer.**

**(5 marks)**

**(b) With reference to the information provided and your own knowledge, assess the view that tobacco consumers switching to e–cigarettes is an example of rational behaviour.**

**(10 marks)**

**(continued on the next page)**

**Turn over**

**6. continued.**

**Tobacco cigarettes and e–cigarettes are considered to be substitutes.**

**(c) Explain how changes in the price of tobacco cigarettes may affect the demand for e–cigarettes over time.**

**(6 marks)**

**(continued on the next page)**

**6. continued.**

**(d) With reference to Extract A, lines 16–19, calculate the price elasticity of demand for tobacco cigarettes in high–income countries and in low–middle–income countries. You are advised to show your working.**

**(4 marks)**

**(e) With reference to Figure 1, assess the likely reasons for the difference in price elasticity of demand for tobacco cigarettes and e–cigarettes.**

**(15 marks)**

**(continued on the next page)**

**Turn over**

**6. continued.**

**EITHER**

- (f) Evaluate the possible advantages of a free market approach to cigarette consumption.  
(20 marks)**

**OR**

- (g) Evaluate the impact of government intervention in the cigarette market.  
(20 marks)**

**(continued on the next page)**

**Turn over**

6. (a) Explain why ‘bans on tobacco advertising’ (Extract A, line 9) may result in a decrease in the revenue of tobacco firms. Include a supply and demand diagram in your answer.

(5 marks)

Answer lines continue on the next three pages.

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6. (a) continued.

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Turn over

**6. continued.**

**(b) With reference to the information provided and your own knowledge, assess the view that tobacco consumers switching to e-cigarettes is an example of rational behaviour.**

**(10 marks)**

**Answer lines continue on the next two pages.**

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**Turn over**





**6. continued.**

**Tobacco cigarettes and e-cigarettes are considered to be substitutes.**

**(c) Explain how changes in the price of tobacco cigarettes may affect the demand for e-cigarettes over time.**

**(6 marks)**

**Answer lines continue on the next two pages.**

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**Turn over**



**6. (c) continued.**

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**6. continued.**

**(d) With reference to Extract A, lines 16–19, calculate the price elasticity of demand for tobacco cigarettes in high–income countries and in low–middle–income countries. You are advised to show your working.**

**(4 marks)**

**Answer lines are on the next two pages.**

**Turn over**





**6. continued.**

**(e) With reference to Figure 1,  
assess the likely reasons for the  
difference in price elasticity of  
demand for tobacco cigarettes  
and e-cigarettes.**

**(15 marks)**

**Answer lines continue on the  
next six pages.**

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**Turn over**











6. (e) continued.

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**6. continued.**

**EITHER**

- (f) Evaluate the possible advantages of a free market approach to cigarette consumption.  
(20 marks)**

**OR**

- (g) Evaluate the impact of government intervention in the cigarette market.  
(20 marks)**

**(continued on the next page)**

**Turn over**

**6. continued.**

**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 6(f)**

**Question 6(g)**

**Answer lines are on the next eleven pages.**

**Turn over**























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