

Paper Reference 8EC0/01
Pearson Edexcel
Level 3 GCE

Total Marks

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.

Surname					
Other names					
Centre Number					
Candidate Number					

X49600A

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.

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.

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 page.

1. (a) continued.

[illegible]

(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)

- 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)**

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

(continued on the next page)

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)

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

(a) Define the term 'subsidies'.

(1 mark)

(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)

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 two pages.

4. (a) continued.

[illegible]

Turn over

4. (a) continued.

(continued on the next page)

4. continued.

Steel production leads to high levels of carbon emissions.

(b) Which ONE of the following is likely to result in an increase in carbon emissions?

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)

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>)

- (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.

5. (a) continued.

[illegible]

Turn over

5. (a) continued.

(continued on the next page)

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)

TOTAL FOR SECTION A = 20 MARKS

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.

6. (a) Explain why ‘bans on tobacco advertising’ (Extract A, line 11) 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)

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)

(d) With reference to Extract A, lines 18–22, 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)

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)

- 6. (a) Explain why 'bans on tobacco advertising' (Extract A, line 11) 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 two pages.

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6. (a) continued.

[illegible]

Turn over

6. (a) continued.

(continued on the next page)

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 page.

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6. (b) continued.

[illegible]

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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 page.

6. (c) continued.

(continued on the next page)

6. continued.

(d) With reference to Extract A, lines 18–22, 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 continue on the next page.

High–income countries

6. (d) continued.

Low–middle–income countries

(continued on the next page)

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 four pages.

Turn over

6. (e) continued.

[illegible]

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

[illegible]

Turn over

6. (e) continued.

(continued on the next page)

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)

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 eight pages.

6. continued.

Write your answer here:

[illegible]

6. continued.

[illegible]

6. continued.

[illegible]

6. continued.

[illegible]

6. continued.

[illegible]

6. continued.

[illegible]

Turn over

6. continued.

[illegible]

6. continued.

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(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS

TOTAL FOR PAPER = 80 MARKS

END OF PAPER

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