

Paper Reference 8EC0/01
Pearson Edexcel
Level 3 GCE

Total Marks

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

Monday 13 May 2019 – 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					

Y57194A

You do not need any other materials.

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.**

Turn over

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.

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 25 minutes plus some of your additional time allowance on this section.

Turn over

5

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

Turn over

- 1. Henry Ford designed his first moving assembly line in 1913, and revolutionised the car production process of the Ford Model T. This assembly line, at the first Ford factory, became the benchmark for mass production methods around the world.**

(Source: adapted from <https://www.ford.co.uk/experience-ford/history-and-heritage>)

(continued on the next page)

1. continued.

(a) The benefits of specialisation and division of labour are mostly associated with:

A Adam Smith

B Friedrich Hayek

C John Maynard Keynes

D Karl Marx

Answer

(1 mark)

(continued on the next page)

Turn over

1. continued.

(b) Explain ONE advantage of the division of labour in car production.

(3 marks)

Answer lines continue on the next page.

Turn over

1. (b) continued.

(Total for Question 1 = 4 marks)

Turn over

2. The consensus that diesel emissions are bad for health has led to many cities planning to ban diesel vehicles from their centres. The mayors of Paris, Mexico City, Madrid and Athens have said they intend to ban these vehicles by **2025**

(Source: adapted from <http://www.autoexpress.co.uk/car-news/consumer-news/98747/diesel-ban-clean-air-zone-expansion-could-see-diesel-cars-charged-to>)

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Turn over

2. continued.

- (a) Refer to the diagram for Question 2(a) in the Data Book. Annotate the diagram to show the change in consumer surplus in the market for diesel vehicles, following the change in demand caused by the proposed 2025 ban in some city centres.
(2 marks)**

(continued on the next page)

Turn over

2. continued.

(b) A ban on diesel vehicles in city centres will reduce the demand for diesel fuel.

This is because:

- A consumers are irrational**
- B consumers expect the price of diesel to rise**
- C the goods are complements**
- D the goods are substitutes**

Answer

(1 mark)

(continued on the next page)

Turn over

2. continued.

(c) Define the term 'demand'.

(1 mark)

(Total for Question 2 = 4 marks)

Turn over

3. Amazon Prime, Netflix and NowTV all charge £7·99 per month for streaming very similar film and television services.

(a) The most likely cross price elasticity of demand for close substitutes is:

A $-2\cdot1$

B $-0\cdot1$

C $+0\cdot1$

D $+2\cdot1$

Answer

(1 mark)

(continued on the next page)

Turn over

3. continued.

In 2016 the average cinema ticket price in the UK was £7·41, and there were 19·1 million tickets sales.

The price elasticity of demand was estimated to be $-0·5$

(b) Calculate the new total revenue if prices were raised by 3% in 2017 to £7·63, if everything else remained unchanged.

You are advised to show your working.

(3 marks)

Answer lines are on the next page.

Turn over

3. (b) continued.

(Total for Question 3 = 4 marks)

Turn over

4. In 2016 the average energy bill per household was £1 070 per year, excluding VAT, an indirect tax charged at 5%

(Source: adapted from ©Crown Copyright <https://www.ofgem.gov.uk/publications-and-updates/infographic-bills-prices-and-profits>)

(continued on the next page)

4. continued.

(a) The amount of VAT paid per year from energy bills by an average household in 2016 was:

A £53·50

B £214·00

C £1 019·00

D £1 123·50

Answer

(1 mark)

(continued on the next page)

Turn over

4. continued.

(b) Refer to the diagram for Question 4(b) in the Data Book. On the diagram annotate the effect of a rise in VAT on the market for household energy use.

(2 marks)

**(c) Define the term 'indirect tax'.
(1 mark)**

Answer lines continue on the next page.

Turn over

4. (c) continued.

(Total for Question 4 = 4 marks)

Turn over

- 5. Refer to the table for Question 5 in the Data Book.**

In the UK, Freddo is a popular chocolate snack bought by children who are under 10 years old. Freddo's income elasticity of demand is estimated to be -0.1

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5. continued.

(a) Calculate the percentage change in quantity demanded for Freddos between 2015 and 2017, *ceteris paribus*:

A -0.8%

B -2%

C -2.5%

D -25%

Answer

(1 mark)

(continued on the next page)

Turn over

5. continued.

(b) Explain ONE reason why the income elasticity of demand is significant to the producer of Freddos.

(3 marks)

Answer lines continue on the next page.

Turn over

5. (b) continued.

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

Turn over

SECTION B

**Refer to Figure 1, Figure 2,
Extract A, Extract B and Extract C
in the Data Book before answering
Question 6**

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

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

Turn over

Question 6

Health provision

**(a) With reference to Extract A and Figure 2, explain how the health care market in the UK illustrates the economic problem.
(5 marks)**

**(b) Explain how ‘asymmetric information’ (Extract B, line 45) can lead to market failure in health provision.
(6 marks)**

(continued on the next page)

Turn over

6. continued.

**(c) ‘Public parks are a public good’
(Extract C, line 1). Assess this
statement.**

(10 marks)

**(d) Calculate the annual revenue
raised by charging £12 per
GP visit. Assume there will be
450 million GP visits per year
and 90% of these will not be
charged. You are advised to
show your working.**

(4 marks)

(continued on the next page)

Turn over

6. continued.

- (e) Discuss likely reasons why the prices of treatments in private sector hospitals are increasing. Draw a supply and demand diagram to support your answer. (15 marks)**

(continued on the next page)

Turn over

6. continued.

EITHER

- (f) Evaluate possible ways the government could intervene to reduce the excess demand for state-funded health care.
(20 marks)**

OR

- (g) Evaluate the possible disadvantages of a free market approach to providing health care.
(20 marks)**

(continued on the next page)

Turn over

6. (a) With reference to Extract A and Figure 2, explain how the health care market in the UK illustrates the economic problem.

(5 marks)

Answer lines continue on the next three pages.

Turn over

6. (a) continued.

Turn over

6. (a) continued.

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6. (a) continued.

(continued on the next page)

Turn over

6. continued.

(b) Explain how ‘asymmetric information’ (Extract B, line 45) can lead to market failure in health provision.

(6 marks)

Answer lines continue on the next three pages.

Turn over

6. (b) continued.

Turn over

6. (b) continued.

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6. (b) continued.

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6. continued.

- (c) ‘Public parks are a public good’
(Extract C, line 1). Assess this
statement.
(10 marks)**

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

Turn over

6. (c) continued.

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6. (c) continued.

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6. (c) continued.

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6. (c) continued.

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6. (c) continued.

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6. (c) continued.

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Turn over

6. continued.

(d) Calculate the annual revenue raised by charging £12 per GP visit. Assume there will be 450 million GP visits per year and 90% of these will not be charged. You are advised to show your working.

(4 marks)

Answer lines continue on the next three pages.

Turn over

6. (d) continued.

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6. (d) continued.

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6. (d) continued.

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Turn over

6. continued.

- (e) Discuss likely reasons why the prices of treatments in private sector hospitals are increasing. Draw a supply and demand diagram to support your answer. (15 marks)**

Answer lines continue on the next thirteen pages.

Turn over

6. (e) continued.

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6. (e) continued.

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6. continued.

EITHER

- (f) Evaluate possible ways the government could intervene to reduce the excess demand for state-funded health care.
(20 marks)**

OR

- (g) Evaluate the possible disadvantages of a free market approach to providing health care.
(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 eighteen pages.

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(Total for Question 6 = 60 marks)

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TOTAL FOR SECTION B = 60 MARKS

TOTAL FOR PAPER = 80 MARKS

END OF PAPER
