

Please check the examination details below before entering your candidate information

Candidate surname

Other names

Pearson Edexcel
International
Advanced Level

Centre Number

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Monday 13 May 2019

Morning (Time: 1 hour 30 minutes)

Paper Reference **WEC01/01**

Economics

International Advanced Subsidiary

Unit 1: Markets in Action

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** the questions in Section A and **one** question from 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.*
- You should take care in your responses 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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Pearson

SECTION A

Answer ALL questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 Statement 1 The Swedish Government increased the amount it spends on health as a percentage of GDP from 8.5% in 2010 to 11.0% in 2016.

Statement 2 The Irish Government decreased the amount it spends on health as a percentage of GDP from 10.5% in 2010 to 7.9% in 2016.

(a) Which one of the following best describes the two statements?

(1)

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

Answer

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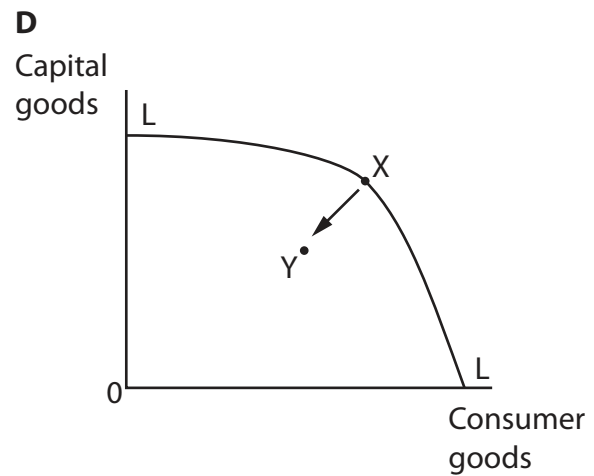
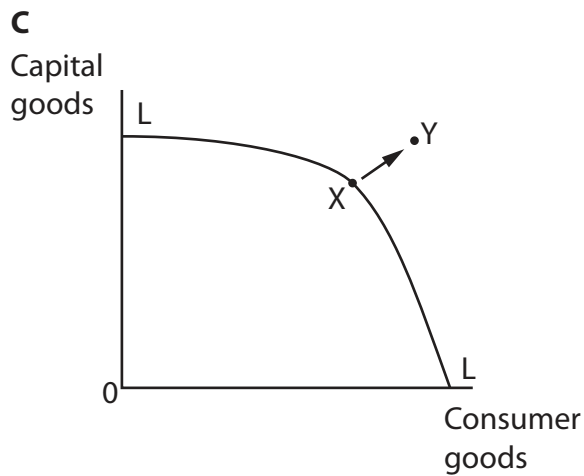
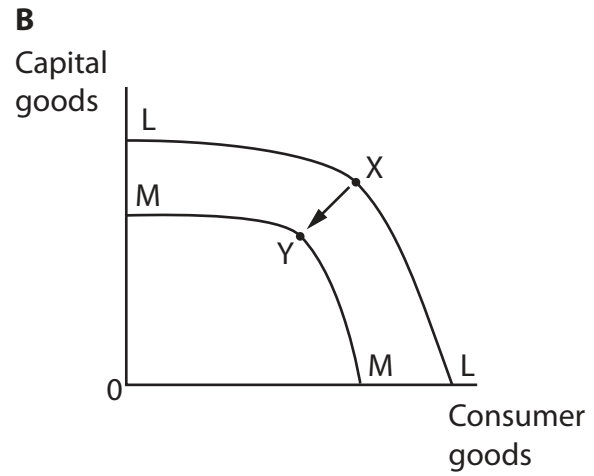
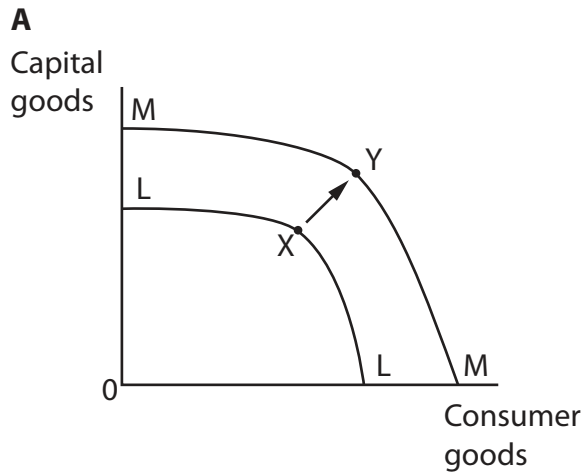


2 The diagrams show the Georgian economy at position X on the production possibility frontier LL in 2010.

Georgia's population decreased by 723 000 between 2010 and 2015.

(a) In which of the diagrams does the movement from X to Y illustrate this decrease in population?

(1)



Answer

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3 The table shows estimates of the price elasticity of demand and income elasticity of demand for electricity in Hawaii.

Price elasticity of demand	-0.07
Income elasticity of demand	+0.13

(Source: http://files.hawaii.gov/dbedt/economic/data_reports/reports-studies/Elasticity_Section_5-10-11_Final.pdf)

(a) From this information it can be deduced that

(1)

- A** an increase in income will lead to a more than proportionate increase in demand for electricity
- B** an increase in the price of electricity will increase total revenue for electricity suppliers
- C** electricity is an inferior good
- D** electricity has price elastic demand

Answer

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QUESTION 9 BEGINS ON THE NEXT PAGE.



SECTION B

Answer EITHER Question 9 OR Question 10

You should spend 55 minutes on this section.

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

Question 10 starts on page 26.

9 The market for dairy products

Extract 1 The rising price of butter

The global price of butter increased from €2 500 per tonne in April 2016 to €4 500 in September 2017.

The price increased because of the rise in the popularity of baking. Health experts have also suggested that butter is not as fattening as previously thought. Butter consumption has increased in China and Japan. Globally there was a 19% increase in consumer demand between 2016 and 2017. Low milk prices in 2014 and 2015 led to many dairy farmers leaving the market. This resulted in less milk being available to butter producers.

In France, the price of pastries increased significantly in 2017. A large quantity of butter is used in the production of pastries. UK manufacturers of biscuits, cakes, pastries and fudge have experienced an 80% rise in the cost of butter in one year. The Food and Drink Federation Scotland said that Scottish manufacturers have not yet passed on the cost increases but that higher prices were inevitable. A spokesperson for the Fudge Kitchen, in the UK, said that small producers who use butter will have reached the point where they can no longer absorb the higher costs. Some manufacturers may switch to cheaper alternatives such as margarine.

(Source: adapted from <https://www.connexionfrance.com/French-news/France-s-butter-shortage-is-worst-in-the-west> and 'Biscuits are bad for your (financial) health as butter costs soar' by Andrew Ellson, 21 October 2017, The Times)

Figure 1 Estimates of elasticity of demand for the UK

Price elasticity of demand for butter	-0.38
Cross elasticity of demand for margarine with respect to the price of butter	+0.08

(Source: adapted from <http://kokminglee.125mb.com/economics/cped.html>)

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Extract 2 European Union (EU) support for the butter market

The EU operates an Intervention Butter Scheme which is a buffer stock scheme to support butter producers. When the price is too low butter will be purchased and stored to be sold at a later date. The scheme operates a number of cold storage facilities to keep the butter fresh. The scheme will only buy unsalted butter and the minimum quantity it will purchase is 20 tonnes. It only buys butter between 1 March and 31 August each year. If there are excess stocks of butter then some will be sold outside the EU. In contrast, when the price is too high butter will be released from the buffer stock.

5

(Source: adapted from © Crown Copyright <https://www.gov.uk/guidance/dairy-farming-and-schemes#milk-marketing-standards>)

Extract 3 Nepal subsidy for dairy farmers

In 2017 Nepal's Government bought Rs2 billion worth of milk powder from abroad to meet domestic demand. To reduce the future need to import milk powder, the Government started a subsidy scheme to support dairy farmers. The subsidy will offer one rupee per litre. The Government allocated Rs70 million for 2017 in selected regions. To be able to claim the subsidy, farmers need to sell at least 500 litres of milk a day. Some farmers argue that this scheme only helps larger farms.

5

(Source: adapted from 'Dairy farmers to get subsidy of a rupee per litre' 14 March 2017 <https://thehimalayantimes.com/business/dairy-farmers-get-subsidy-rupee-per-litre/>)

- (a) With reference to Extract 1, explain why the price of butter increased between April 2016 and September 2017. Illustrate your answer with a supply and demand diagram. (6)
- (b) With reference to Extract 1, evaluate the likely effects of the increase in the price of butter on food manufacturers. (14)
- (c) With reference to Figure 1, explain the effect of the increase in the price of butter on the demand for margarine in the UK. (4)
- (d) With reference to Extract 2, to what extent is it likely that a buffer stock scheme will reduce price fluctuations of butter? (10)
- (e) With reference to Extract 3, evaluate the impact of the introduction of a subsidy for milk farmers in Nepal. Illustrate your answer with an appropriate diagram. (14)



(b) With reference to Extract 1, evaluate the likely effects of the increase in the price of butter on food manufacturers.

(14)

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(c) With reference to Figure 1, explain the effect of the increase in the price of butter on the demand for margarine in the UK.

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(d) With reference to Extract 2, to what extent is it likely that a buffer stock scheme will reduce price fluctuations of butter?

(10)

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(e) With reference to Extract 3, evaluate the impact of the introduction of a subsidy for milk farmers in Nepal. Illustrate your answer with an appropriate diagram.

(14)

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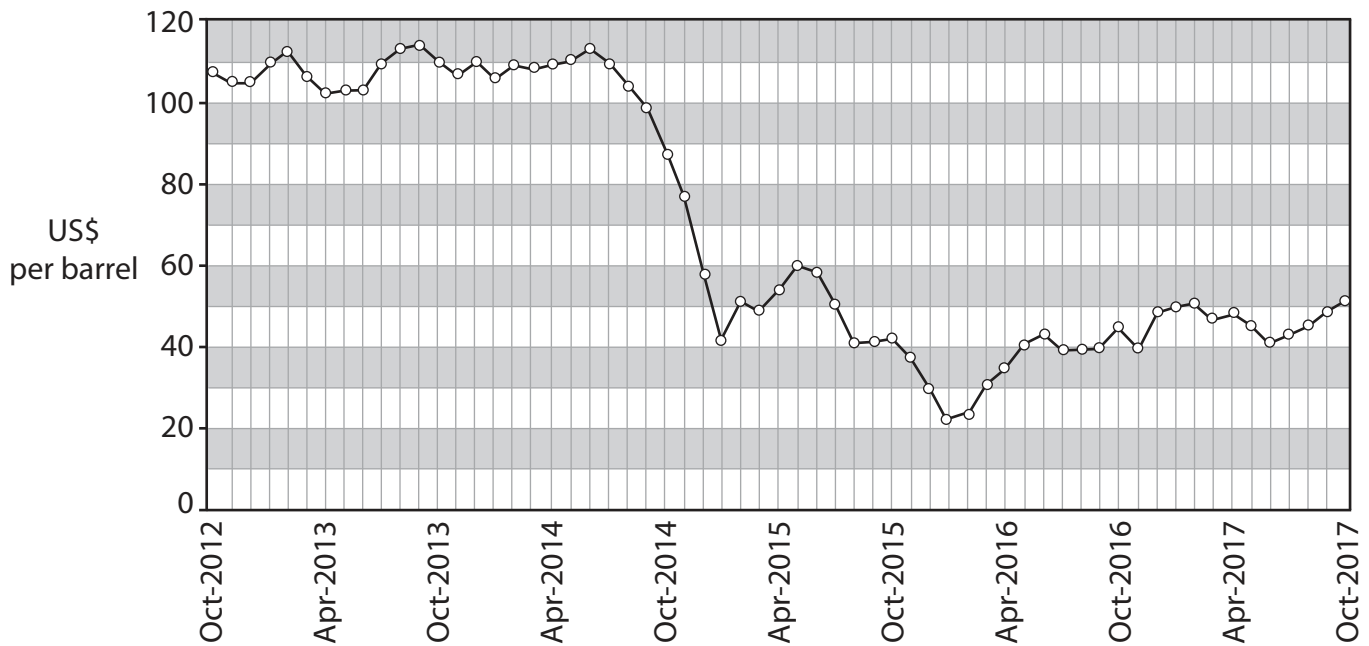
(Total for Question 9 = 48 marks)



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

10 Qatar

Figure 1 Price of crude oil, US\$ per barrel, October 2012 to October 2017



(Source: adapted from <http://www.indexmundi.com/commodities/?commodity=crude-oil&months=60>)

Extract 1 Oil price changes

There was a sharp fall in the price of oil in the second half of 2014. This was caused by the discovery and extraction of large quantities of oil in the USA and an increase in production in Iraq, Libya and Saudi Arabia. Further, there was a fall in global demand resulting from slow growth in Europe and China.

5

Qatar earned \$69.4 billion in oil revenue in 2012. This figure fell to \$24.0 billion in 2016. Consequently the Government was not able to raise enough tax revenue to cover its spending. To raise more tax revenue Qatar decided to introduce its first indirect tax on the sale of goods and services at a rate of 5%. The tax will be applied to clothes, food and technology products.

10

(Sources: adapted from 'Why crude oil prices keep falling and falling, in one simple chart', by Brad Plumer, 8 February 2016, <https://www.vox.com/2016/1/12/10755754/crude-oil-prices-falling> and 'Gulf states still committed to VAT but dates will vary: IMF', by Andrew Torchia, 31 October 2017, https://www.zawya.com/uae/en/story/Gulf_states_still_committed_to_VAT_but_dates_will_vary_IMF-TR20171031nL8N1N61EUX2/)



Extract 2 Minimum wage in Qatar

In 2010 Qatar was given permission to host the 2022 football World Cup. Since then the Qatari Government has launched construction projects to build sports stadiums. It will also need to improve energy production and has decided to invest in solar energy to increase solar production to 30% by 2030. There is little potential for wind turbines. In 2015 all electricity was generated using natural gas. 5

Two million migrant workers have moved to Qatar to work in the construction industry. After criticism about the poor treatment and low wages awarded to these workers, the Government has decided to introduce a minimum wage for construction workers. There have been no commitments about the level at which the minimum wage will be set and no guarantee as to when it will start. 10

(Source: adapted from 'Qatar 'to introduce' minimum wage as part of labor reforms', 26 October 2017, <http://newsinfo.inquirer.net/940594/news-qatar-minimum-wage-foreign-labor-kafala> and 'Qatar's power generation capacity to surge by 50%', by Satish Kanady, 24 May 2017, <https://www.thepeninsulaqatar.com/article/24/05/2017/Qatar-s-power-generation-capacity-to-surge-by-50>)

Extract 3 Air pollution in Qatar

Qatar's construction boom has contributed to air pollution that exceeds safe limits. This will damage the health of the population according to the World Health Organization (WHO). It found that there were many very small particles that contain dangerous heavy metals. Qatar has the second highest level of this air pollution in the world. WHO said readings were ten times the recommended amount. These particles may affect the respiratory system and are particularly dangerous to health. The health problems include coughing, shortness of breath, chronic bronchitis, lung cancer and heart disease. However, the air pollution could also be caused by vehicle exhaust fumes and desert dust. 5
10

(Source: adapted from 'WHO: Qatar's polluted air is harmful to residents' health', by Victoria Scott, 30 September 2016, <https://dohanews.co/who-qatars-polluted-air-is-harmful-to-residents-health/>)

- (a) With reference to Figure 1 and Extract 1, explain why there was a sharp fall in the price of oil in the second half of 2014. Illustrate your answer with a supply and demand diagram. (6)
- (b) With reference to Extract 1, assess the impact of the introduction of the indirect tax on the market for clothes in Qatar. (10)
- (c) With reference to Extract 2, explain the difference between renewable resources and non-renewable resources. (4)
- (d) With reference to Extract 2, evaluate the likely microeconomic effects of the introduction of a minimum wage for construction workers in Qatar. (14)
- (e) With reference to Extract 3, evaluate the impact of the external costs caused by the construction boom in Qatar. Illustrate your answer with an appropriate diagram. (14)



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(a) With reference to Figure 1 and Extract 1, explain why there was a sharp fall in the price of oil in the second half of 2014. Illustrate your answer with a supply and demand diagram.

(6)

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(b) With reference to Extract 1, assess the impact of the introduction of the indirect tax on the market for clothes in Qatar.

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(c) With reference to Extract 2, explain the difference between renewable resources and non-renewable resources.

(4)

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(d) With reference to Extract 2, evaluate the likely microeconomic effects of the introduction of a minimum wage for construction workers in Qatar.

(14)

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TOTAL FOR SECTION B = 48 MARKS

TOTAL FOR PAPER = 80 MARKS



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