

Please check the examination details below before entering your candidate information

Candidate surname

Other names

Centre Number

Candidate Number

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Pearson Edexcel International Advanced Level

Time 1 hour 45 minutes

Paper
reference

WEC11/01

Economics

International Advanced Subsidiary

UNIT 1: Markets in action

You must have:

Source Booklet (enclosed)

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** questions in Sections A, B and C.
- Answer **ONE** question in Section D.
- 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.*
- 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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SECTION A

Answer ALL questions in this section.

Questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

- 1 Which **one** of the following is a role of financial markets?
- A To collect tax revenues
 - B To enable consumers to minimise their utility
 - C To make funds available for individuals and businesses
 - D To provide public goods

(Total for Question 1 = 1 mark)

- 2 In the UK, new consumers paid an average of £130 for home insurance in 2020. Consumers who had remained with the same insurance company since 2015 paid £238 for the same annual home insurance cover. Despite this, many consumers stay loyal to their insurance company.

Which **one** of the following is the most likely reason why consumers stay loyal to their insurance company?

- A Consumers feel undervalued
- B Consumers have good computational skills
- C The free-rider problem
- D Habitual behaviour

(Total for Question 2 = 1 mark)

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- 3 The table shows the estimated price elasticity of demand for railway tickets for use on underground trains in selected Mexican cities in 2020.

City	Price elasticity of demand
Guadalajara	-0.32
Mexico City	-0.25
Monterrey	-0.23

(Source adapted from: https://www.nber.org/system/files/working_papers/w28244/w28244.pdf)

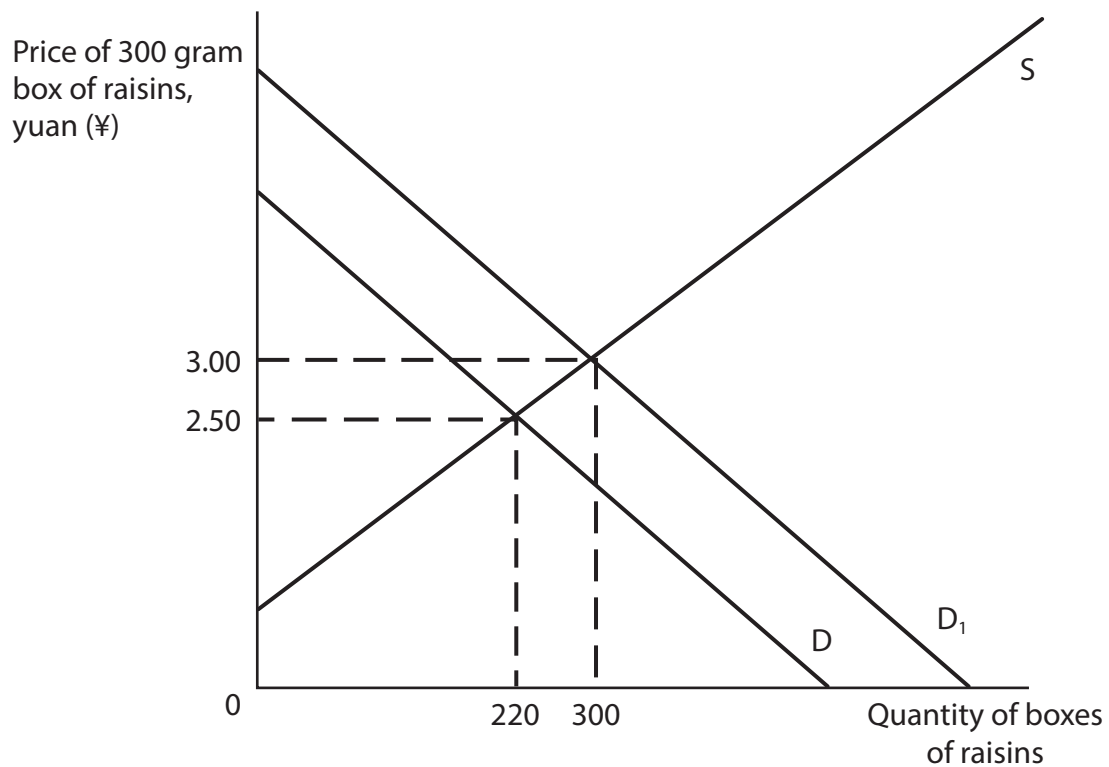
Which **one** of the following can be deduced from the table?

- A The demand for railway tickets in Guadalajara is price elastic
- B A decrease in the price of railway tickets in Mexico City will decrease total revenue
- C An increase in the price of railway tickets in Monterrey will decrease total revenue
- D The demand for the railway tickets in all three cities will decrease in response to an increase in income

(Total for Question 3 = 1 mark)



4 The diagram shows the market for 300 gram boxes of raisins in China.



Which **one** of the following is the price elasticity of supply for boxes of raisins when the demand curve shifts from D to D₁?

- A -1.82
- B -0.55
- C +0.55
- D +1.82

(Total for Question 4 = 1 mark)



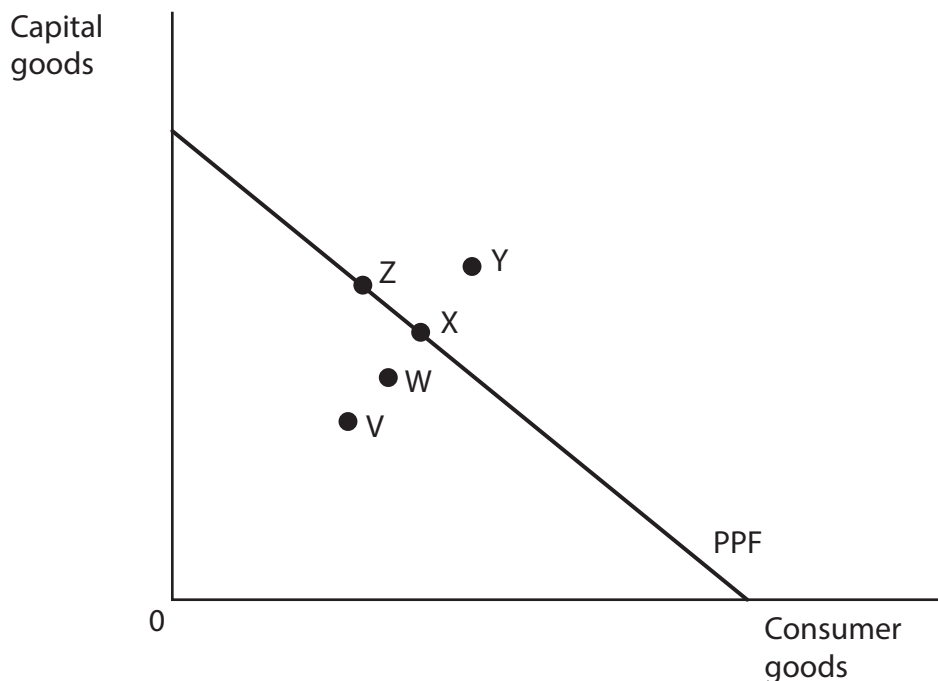
- 5 A relatively high rate of indirect taxation on fuel in the Philippines leads to the smuggling of fuel from neighbouring countries. This results in the Philippine Government losing \$750 million of tax revenue a year.

Smuggling is an example of which **one** of the following concepts?

- A Government failure
- B Market failure
- C Unobtainable production
- D Consumer inertia

(Total for Question 5 = 1 mark)

- 6 The diagram shows the production possibility frontier (PPF) for a small country.



Which **one** of the following can be deduced from the diagram?

- A The movement from X to Y is obtainable using current available resources
- B The movement from X to Z has an opportunity cost in terms of capital goods
- C The movement from V to W results in an increase in unemployed resources
- D The movement from W to X results from improved efficiency

(Total for Question 6 = 1 mark)

TOTAL FOR SECTION A = 6 MARKS



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8 In the USA research found that 68% of those without health insurance and 88% of those with health insurance visited a dentist.

With reference to health insurance, explain what is meant by 'moral hazard'.

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(Total for Question 8 = 4 marks)



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SECTION C BEGINS ON THE NEXT PAGE.



P 7 2 4 6 0 A 0 1 1 2 8

SECTION C

Study Figure 1 and Extracts A, B and C in the Source Booklet before answering Question 12.

Write your answers in the space provided on the following pages.

- 12 (a) Define the term 'market failure' (Extract A, line 14). (2)
- (b) With reference to paragraph 1 of Extract A, analyse **two** reasons why house prices increased between March 2020 and March 2021.
Illustrate your answer with a supply and demand diagram. (6)
- (c) With reference to Extract B, explain why the supply of new houses is likely to be price inelastic. (4)
- (d) With reference to Extract C, examine whether national parks in New Zealand are public goods. (8)
- (e) With reference to Figure 1, Extract A and Extract B, discuss the likely microeconomic effects of a housing market bubble in New Zealand. (14)

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12 (a) Define the term 'market failure' (Extract A, line 14).

(2)

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(b) With reference to paragraph 1 of Extract A, analyse **two** reasons why house prices increased between March 2020 and March 2021.

Illustrate your answer with a supply and demand diagram.

(6)

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P 7 2 4 6 0 A 0 1 5 2 8

(c) With reference to Extract B, explain why the supply of new houses is likely to be price inelastic.

(4)

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(d) With reference to Extract C, examine whether national parks in New Zealand are public goods.

(8)

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(e) With reference to Figure 1, Extract A and Extract B, discuss the likely microeconomic effects of a housing market bubble in New Zealand.

(14)

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(Total for Question 12 = 34 marks)

TOTAL FOR SECTION C = 34 MARKS



SECTION D

Answer **ONE** question from this section.

Write your answer in the space provided.

EITHER

13 In January 2022 average energy prices increased by 28.6% in the eurozone area. In response:

- the German Government provided subsidies to energy producers
- the Spanish Government reduced indirect taxes on energy bills
- the French Government introduced a maximum price on energy bills.

Evaluate **two** possible measures that could be introduced to reduce the price that consumers pay for energy.

Include at least one diagram in your answer.

(Total for Question 13 = 20 marks)

OR

14 Fertiliser is used by farmers to increase the output of crops per acre of farmland. In 2021 farmers experienced a 400% increase in the cost of fertiliser. Between March 2021 and March 2022 the global food price index increased by 38%.

Evaluate the impact of the 400% increase in the cost of fertiliser on farmers and households.

Include one diagram to show the impact on farmers in your answer.

(Total for Question 14 = 20 marks)

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TOTAL FOR SECTION D = 20 MARKS
TOTAL FOR PAPER = 80 MARKS



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Source Booklet

Do not return this Booklet with the question paper.

Turn over ►

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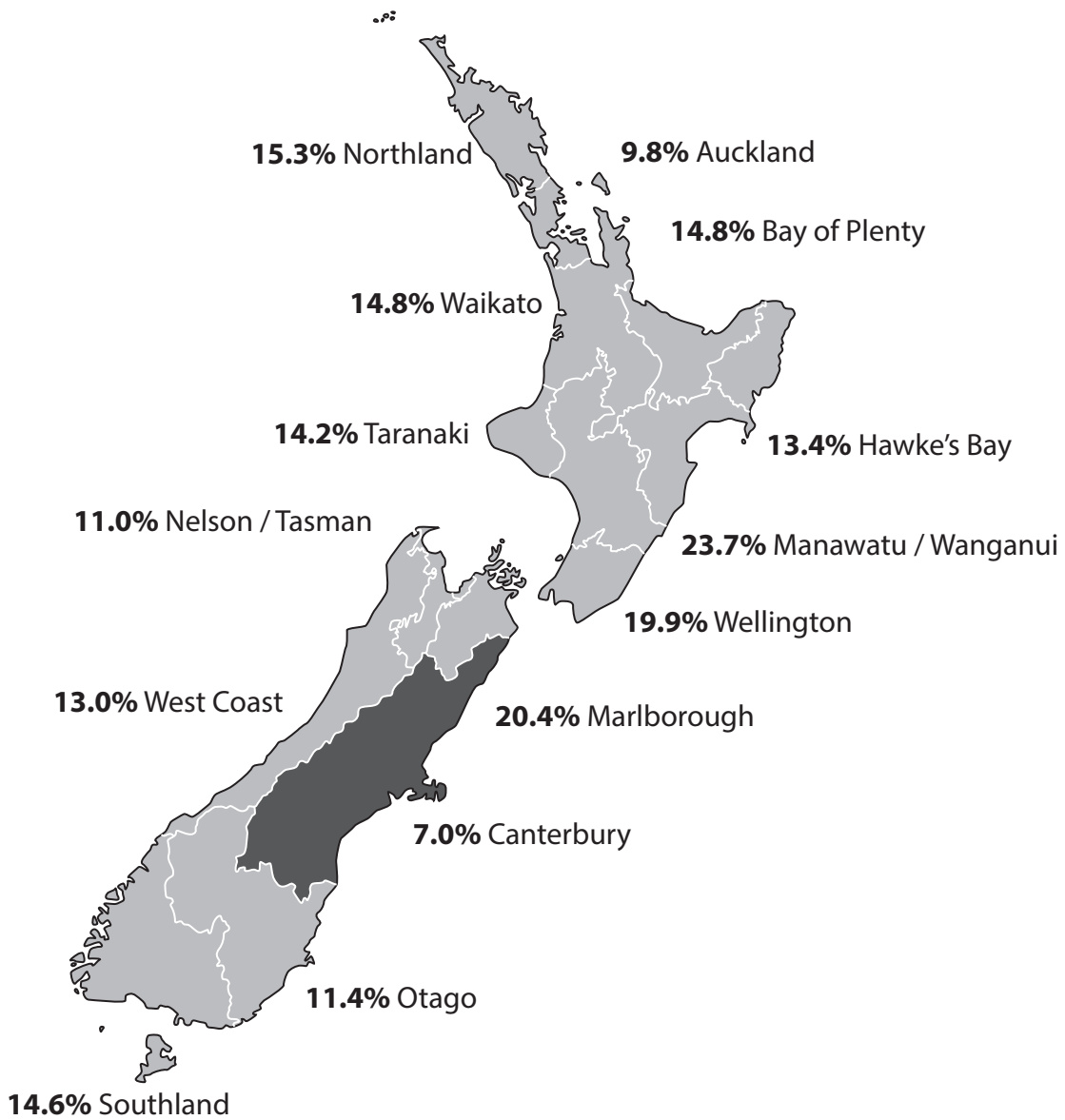


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Sources for use with Section C

New Zealand's housing market and national parks

Figure 1 Percentage change in house prices between March 2020 and March 2021, by region



Extract A Rapid increase in house prices

House prices in New Zealand increased by 15.7% between March 2020 and March 2021. The average house price had risen to NZ\$925 000. This increase in house prices was caused by increasing real incomes, low interest rates and a rise in immigration following the global health crisis. Real incomes increased as a result of an above average rate of economic growth. Between March 2020 and March 2021 the base interest rate in New Zealand was just 0.25%, making it relatively cheap to borrow to purchase houses. 5

Research showed that house prices in New Zealand were about 40% overvalued relative to income. House prices were rising faster than real incomes and were 8.6 times median income in 2020 and 10 times median income in 2021. In Auckland, the average property price increased to NZ\$1.4 million in 2021. This was 35 times median income. 10

According to New Zealand's Prime Minister, Jacinda Ardern, many buyers are speculators. In 2020 approximately 15 000 people buying houses owned five or more. She is worried that the speculators could cause a dangerous housing bubble and market failure. She is also concerned that 1% of the population are homeless, the highest rate of homelessness amongst developed countries. 15

Between 2000 and 2021 house prices increased by 256% in New Zealand. By comparison, house prices in the USA increased by 68% and in the UK by 110%.

Extract B House building in New Zealand

In 2017 the Government promised to build 100 000 new homes. Between June 2018 and July 2020 the Government built just 6 000 homes. It is expensive to build houses and there is much paperwork needed to obtain planning permission. Many local authorities limit the land on which houses can be built in order to protect the environment. There is a shortage of over 55 000 construction workers. 5

Between 2011 and 2020 the average annual growth rate in housebuilding was 13%. However, in 2021, the significant increase in house prices created an incentive to build new houses. Consequently, the number of new houses under construction increased by 26%. 10

Extract C New Zealand's national parks

New Zealand has 13 national parks covering 30 000 km² that the public can explore on foot, by boat, car or air. For much of the year there is so much space that an individual will rarely meet another person. However, in the summer season the national parks are very popular. This means that the national parks become more crowded and car parking spaces are hard to find. 5

Some activities within the national parks, such as skiing and kayaking, have to be paid for. However, individuals can walk, run or cycle across the national parks without charge.

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Acknowledgements

Figure 1 adapted from: <https://wiseplanning.co.nz/market-and-economic-update-may-2021/>

Extract A adapted from:

<https://www.globalpropertyguide.com/Pacific/New-Zealand/Price-History>

<https://www.bloomberg.com/news/articles/2021-03-22/new-zealand-targets-speculators-in-new-assault-on-house-prices>

<https://www.economist.com/asia/2022/02/12/new-zealands-housing-crisis-is-worsening>

Extract B adapted from:

<https://www.reuters.com/article/newzealand-election-housing-idUSKBN26M471>

<https://www.emigrationnewzealand.com/construction-workers-new-zealand/#:~:text=Stuff%20New%20Zealand%20recently%20reported%20that%20there%20will,workers%20could%20hamper%20efforts%20to%20build%20more%20houses>

Extract C adapted from: <https://www.newzealand.com/int/national-parks/>

