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<h1>Economics</h1> <h2>International Advanced Subsidiary</h2> <h3>Unit 1: Markets in Action</h3>									
Tuesday 13 May 2014 – Morning							Paper Reference		
<b>Time: 1 hour 30 minutes</b>							<b>WEC01/01</b>		
You do not need any other materials.								Total Marks	
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### 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** 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

A global minimum wage should be introduced to help the poorest workers in the world.

#### Statement 2

There is a variation in monthly minimum wages in Europe ranging from €159 in Romania to €1 874 in Luxembourg.

Which **one** of the following best describes the two statements above?

(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

Explanation

(3)

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(Total for Question 1 = 4 marks)

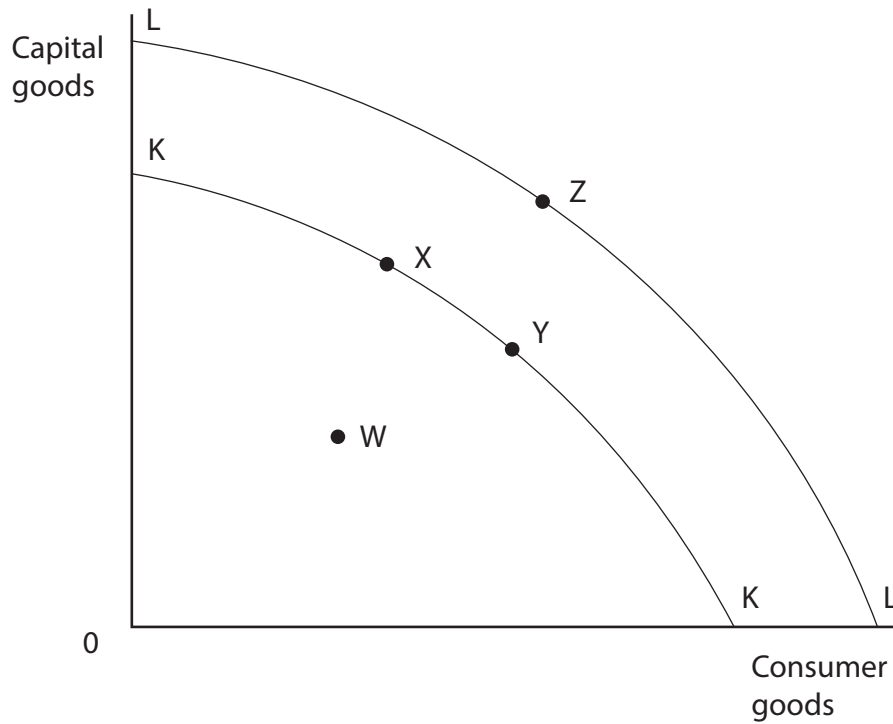


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**Question 2 is on the next page**



2 The production possibility frontier KK represents an economy in year 1. The economy is using all of its available resources.



In year 2, the economy experiences economic growth. This may be illustrated by a movement from

(1)

- A Y to W
- B X to Y
- C Y to Z
- D Z to Y

Answer



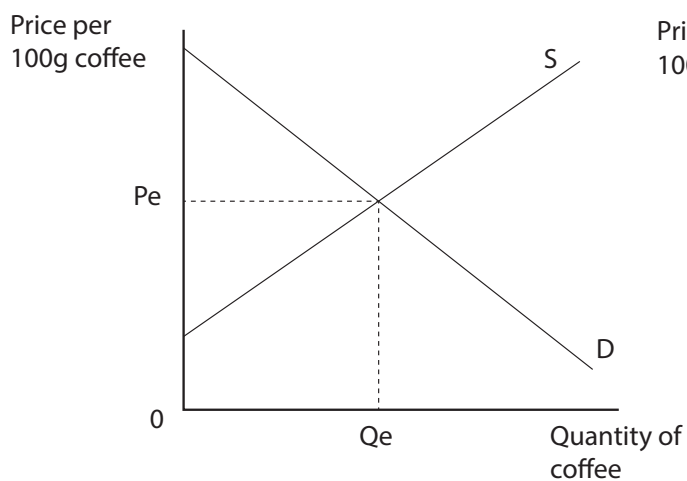




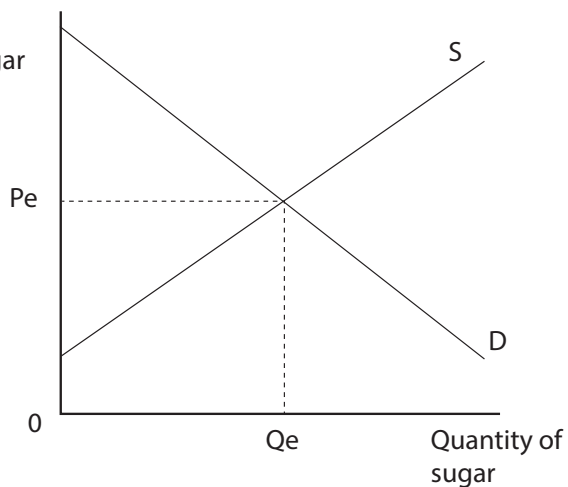


5 The diagrams show the markets for coffee and sugar.

**Market for coffee**



**Market for sugar**



In August 2013 it was reported that Brazil is forecasting a larger coffee bean harvest than in previous years. Other things being equal, this is most likely to cause

(1)

- | <b>Price of coffee</b> | <b>Price of sugar</b> |
|------------------------|-----------------------|
| <b>A</b> Rise          | Rise                  |
| <b>B</b> Fall          | Fall                  |
| <b>C</b> Fall          | Rise                  |
| <b>D</b> No change     | Fall                  |

Answer







- 6 The table below shows estimates of the price elasticity of demand for short-haul air travel within selected regions.

Region	Price elasticity of demand for short-haul air travel
North America	-0.9
Europe	-1.2
Asia	-0.8
Sub-Saharan Africa	-0.5

(Source: adapted from [www.iata.org/SiteCollectionDocuments/air\\_travel\\_demand\\_summary](http://www.iata.org/SiteCollectionDocuments/air_travel_demand_summary))

From the data it can be deduced that

(1)

- A the price elasticity of demand is inelastic in all regions
- B if airlines increase prices in Europe their total revenue will fall
- C airlines could reduce prices in Sub-Saharan Africa to increase their total revenue
- D short-haul air passengers in Asia are more responsive to price changes than those in North America

Answer



Explanation

(3)

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**(Total for Question 6 = 4 marks)**



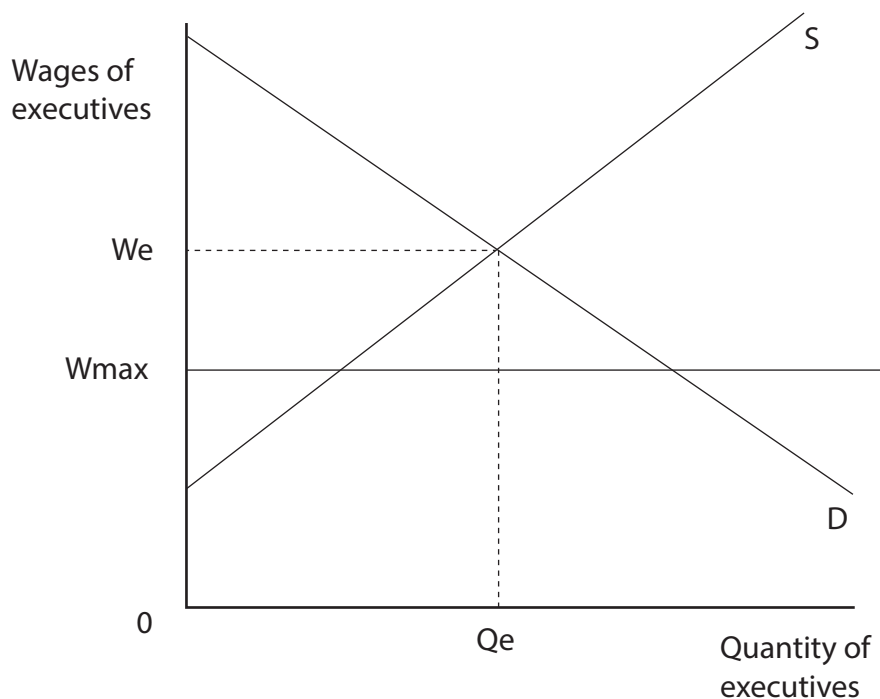


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**Question 8 is on the next page**



8 The diagram shows the labour market for executives in Swiss companies.



The public in Switzerland considered restricting the pay of executives who manage Swiss companies. The imposition of such a maximum wage at  $W_{max}$  would

(1)

- A result in the wages for executives of Swiss companies remaining unchanged
- B cause unemployment of executives in Switzerland
- C attract executives from other countries to Swiss companies
- D cause some executives of Swiss companies to move to other countries

Answer





### SECTION B

Answer EITHER Question 9 OR Question 10.

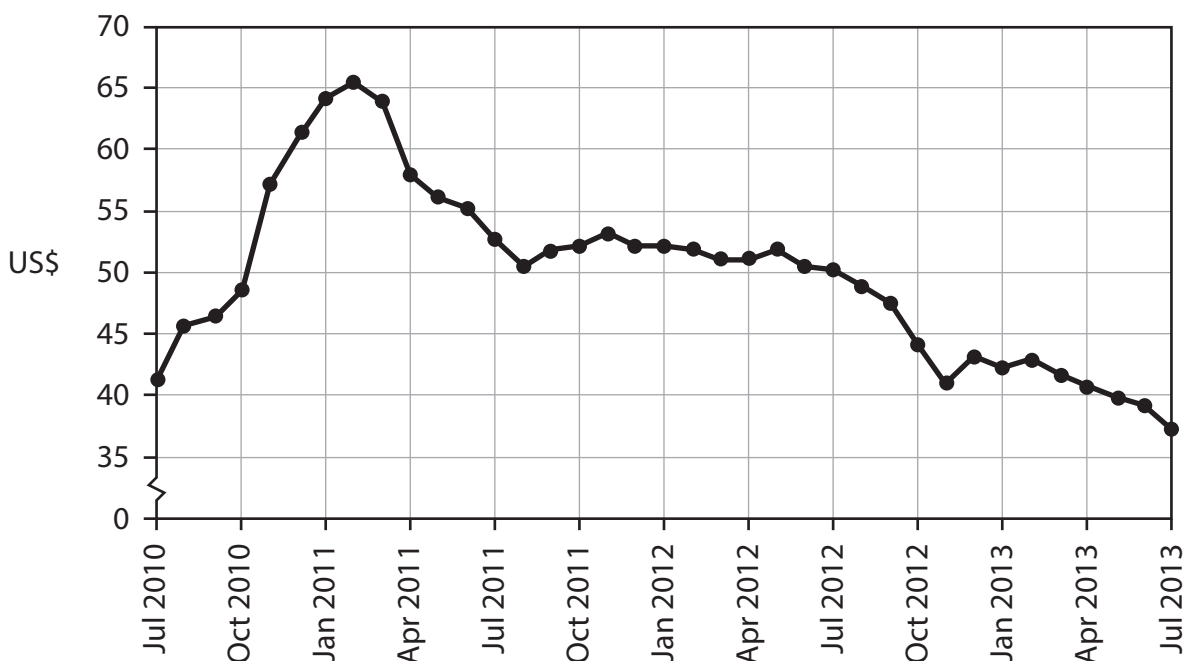
You should spend 55 minutes on this section.

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

Question 10 starts on page 28.

#### 9 The price of uranium

Figure 1 Price of uranium US\$ per pound



(Source: <http://www.indexmundi.com/commodities/?commodity=uranium&months=60>)

#### Extract 1 Uranium price falls as Japan and Germany close nuclear power plants

In March 2011, an earthquake in Japan caused a tsunami that damaged the Fukushima nuclear power plant, resulting in radioactive leaks. The Fukushima disaster affected the global nuclear industry causing many countries to reconsider the use of nuclear energy and fuels, including that of uranium.

Japan closed 52 nuclear plants. Germany abandoned nuclear power altogether. This means that two significant customers of the uranium industry have stopped purchasing the nuclear fuel. Consequently, the price of uranium has fallen.

5

(Source: adapted from Fukushima Accident 2011, World Nuclear Association, 9 September 2013, [www.world-nuclear.org/info/Safety-and-Security/Safety-of-Plants/Fukushima-Accident-2011](http://www.world-nuclear.org/info/Safety-and-Security/Safety-of-Plants/Fukushima-Accident-2011))





## Extract 2 Japanese energy market

The nuclear meltdown at Fukushima led to widespread radioactive contamination, especially in the North Pacific Ocean. Soil, water and marine animals have been highly contaminated. Even without accidents, nuclear power has uncertain long-term waste disposal problems and unknown costs of shutting down worn-out nuclear plants.

200 000 people were evacuated from the area surrounding Fukushima. A further 70 000 people still live in areas that are contaminated. These people have an increased risk of developing cancers. Food and drinking water have been contaminated, leading to internal radiation exposure. 5

Before the Fukushima disaster in March 2011, Japan neglected renewable resources, such as solar energy or hydroelectricity, to supply power. Afterwards, its nuclear plants were closed and Japan has become one of the world's fastest-growing users of solar energy. In 2013, Japan is forecast to install solar panels with the capacity of about six modern nuclear reactors. 10

The government has introduced a guaranteed minimum price for solar power, set at 42 yen per kilowatt hour. This is about twice the rate offered by France and Germany. Many Japanese businesses are installing solar panels to sell energy to the energy companies. In 2013, Japan's total solar capacity is set to double, supplying power to over three million homes. 15

There is a downside to renewable energy resources: they are more expensive than nuclear power or fossil fuels, such as coal, oil and gas. However, Japan has to import fossil fuels and these release greenhouse gasses, unlike nuclear and solar power. 20

(Source: adapted from 'Effects of the Fukushima nuclear meltdowns on environment and health' by Dr. Alex Rosen, IPPNW, [www.ippnw.de/commonFiles/pdfs/Atomenergie/FukushimaBackgroundPaper.pdf](http://www.ippnw.de/commonFiles/pdfs/Atomenergie/FukushimaBackgroundPaper.pdf))

(Source: adapted from 'After Fukushima, Japan beginning to see the light in solar energy', by Chico Harlan, *Washington Post*, 18 June 2013, [www.theguardian.com/world/2013/jun/18/japan-solar-energy-fukushima-nuclear-renewable-abe](http://www.theguardian.com/world/2013/jun/18/japan-solar-energy-fukushima-nuclear-renewable-abe))

- (a) With reference to Figure 1 and Extract 1, explain why the price of uranium has fallen since March 2011. Use a supply and demand diagram in your answer. (6)
- (b) With reference to Extract 2, discuss the impact of the changes in sources of energy supply on labour markets in Japan. (10)
- (c) With reference to Extract 2 and using the concept of externalities, examine the economic effects of nuclear energy production. (14)
- (d) Explain what is meant by 'renewable energy resources'. (Extract 2, line 19) (4)
- (e) Evaluate the decision by the Japanese government to introduce a 'guaranteed minimum price for solar power'. (Extract 2, line 14) (14)



(a) With reference to Figure 1 and Extract 1, explain why the price of uranium has fallen since March 2011. Use a supply and demand diagram in your answer.

(6)

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(d) Explain what is meant by 'renewable energy resources'. (Extract 2, line 19)

(4)

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(e) Evaluate the decision by the Japanese government to introduce a 'guaranteed minimum price for solar power'. (Extract 2, line 14)

(14)

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

**10 Driving growth in the car market**

**Figure 1 New car sales in selected countries and the world (millions)**

	<b>2010</b>	<b>2011</b>	<b>2012</b>
USA	11.55	15.22	17.07
China	11.17	12.16	13.18
India	1.87	1.95	2.02
<b>World Total</b>	<b>58.58</b>	<b>60.80</b>	<b>64.94</b>

**Extract 1 Record global car sales**

Global car sales increased by 4% in the first half of 2013. This is largely a result of increased employment and economic growth in Asia and South America leading to rising incomes. With low interest rates across the world and improving financial markets it is easier to borrow money to purchase a car.

In the USA, car manufacturers are planning to employ more engineers, technicians and factory workers. Car factories are operating at about 95% capacity. Some car companies are adding floor space and buying new equipment. The car industry created 167 500 jobs between 2009 and 2013.

5

(Source: adapted from On The Road To Record Global Car Sales In 2013, Global Economics, Scotiabank by Carlos Gomes, 2nd August 2013 [www.gbm.scotiabank.com/English/bns\\_econ/bns\\_auto.pdf](http://www.gbm.scotiabank.com/English/bns_econ/bns_auto.pdf))

(Source: Auto Industry Hiring Spree Will Likely Result In 35,000 More Jobs This Year, By TOM KRISHER, 6th September 2013, [www.huffingtonpost.com/2013/06/09/auto-industry-hiring-spree\\_n\\_3411531](http://www.huffingtonpost.com/2013/06/09/auto-industry-hiring-spree_n_3411531))



## Extract 2 Chinese government policy on car usage

China has launched a subsidy for environmentally friendly electric cars to reduce the external costs caused by private car usage. Each electric car can receive up to RMB 60 000 (US\$9 800) in subsidies, while petrol-electric hybrids can get up to RMB 35 000. The programme seeks to develop the electric car industry and reduce emissions.

The impact of the subsidy could be limited. In 2012 the previous subsidy, which was larger, led to 11 375 electric cars being sold, which is a very small proportion of total car sales. Sales of electric cars will be limited by underdeveloped battery-recharging infrastructure and a higher price compared to petrol cars. 5

The Chinese government also plans to increase indirect taxes on fuel. This could reduce demand for big cars and the distances travelled by drivers. It will prompt carmakers to develop more fuel-efficient vehicles. "I'll consider buying a smaller-engined car next time," said lawyer Gong Chenhua, who will have to pay a few thousand RMB more in annual running costs, if he keeps driving frequently. 10

In Beijing, the capital of China, the indirect tax on large engine cars was doubled to 40% whilst the tax on small engine cars was lowered from 3% to 1%. As a result, car manufacturers are likely to develop more fuel-efficient vehicles. 15

(Source adapted from: China Unveils New Subsidies for Fuel-Efficient Vehicles, by Rose Yu, *Wall Street Journal*, September 17, 2013, [online.wsj.com/article/SB10001424127887323981304579080744118281328](http://online.wsj.com/article/SB10001424127887323981304579080744118281328))

(Source: Consumption tax expected to dent demand for big cars, By Kandy Wong, *South China Morning Post*, 4 April, 2012, [www.scmp.com/article/662978/consumption-tax-expected-dent-demand-big-cars](http://www.scmp.com/article/662978/consumption-tax-expected-dent-demand-big-cars))

- (a) With reference to Figure 1 and Extract 1, explain the likely impact on consumer surplus of the change in demand for new cars between 2010 and 2012. Use a supply and demand diagram in your answer. (6)
- (b) With reference to Figure 1 and Extract 1, explain whether cars are a normal or an inferior good. (4)
- (c) Discuss the likely impact of the increase in demand for new cars on wage rates in the car industry. (10)
- (d) With reference to Extract 2, evaluate the possible effects on the Chinese car market of the government's subsidy for electric cars. (14)
- (e) Evaluate the likely impact of the planned increase in indirect taxes on fuel on the level of car emissions in China. Use an appropriate diagram in your answer. (14)







(c) Discuss the likely impact of the increase in demand for new cars on wage rates in the car industry.

(10)

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(d) With reference to Extract 2, evaluate the possible effects on the Chinese car market of the government's subsidy for electric cars.

(14)

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P 4 4 5 6 2 A 0 3 5 4 0

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(e) Evaluate the likely impact of the planned increase in indirect taxes on fuel on the level of car emissions in China. Use an appropriate diagram in your answer.

(14)

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**(Total for Question 10 = 48 marks)**

**TOTAL FOR SECTION B = 48 MARKS**

**TOTAL FOR PAPER = 80 MARKS**



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