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Pearson Edexcel
International
Advanced Level

Centre Number	Candidate Number										
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Economics

International Advanced Subsidiary

Unit 1: Markets in Action

Sample Assessment Material Time: 1 hour 30 minutes	Paper Reference SAM
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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** 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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your 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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Section A: Answer all the 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 In 2012, the French President, François Hollande, proposed a top marginal tax rate of 75% on high income earners.

Statement 1: The tax would apply to all those earning more than one million euro per year.

Statement 2: The imposition of the 75% rate would share the burden of increased taxation fairly.

Which of the following best describes the two statements above?

(1)

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

Answer

Explanation

(3)

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(Total for Question 1 = 4 marks)

2 Evidence suggests that only a relatively small proportion of consumers change bank accounts, energy suppliers or mobile (cell) phone contracts even where there would be a significant financial gain from doing so.

This behaviour may best be explained by

(1)

- A consumer purchases being based on habit
- B consumers having full information
- C consumers having good computational skills
- D consumers experiencing diminishing marginal utility

Answer

Explanation

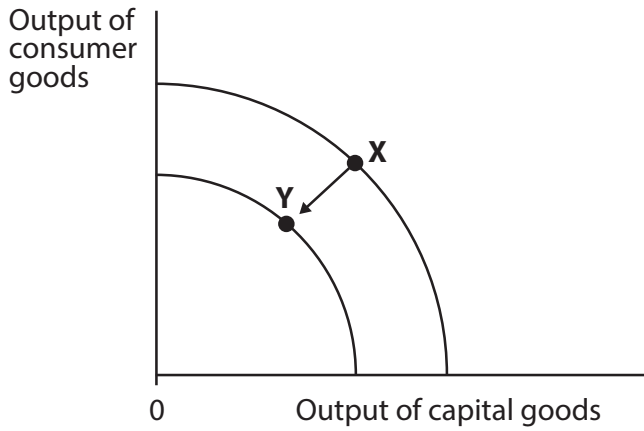
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(Total for Question 2 = 4 marks)

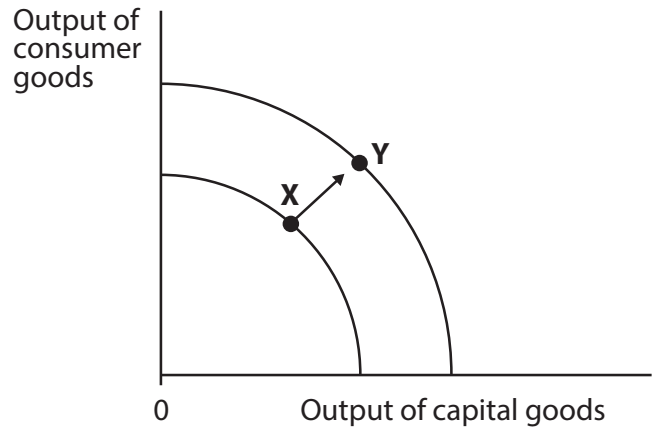
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Production possibility frontiers

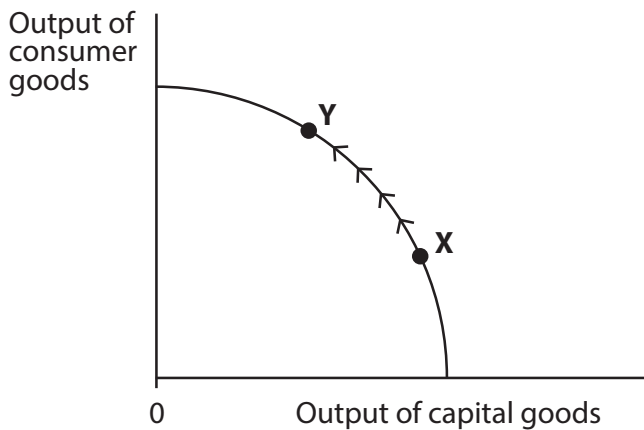
Option A



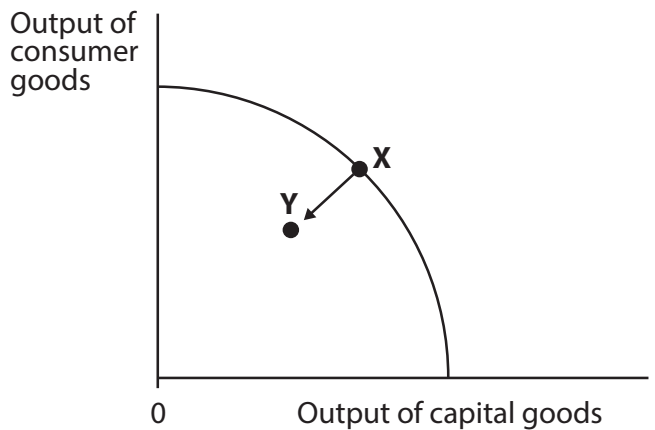
Option B



Option C



Option D



The diagrams show movements from position X to Y on production possibility frontiers. In which of the above diagrams does the movement from X to Y illustrate economic growth?

(1)

Answer

Explanation

(3)

(Total for Question 3 = 4 marks)

4 In 2010, the Kenyan Parliament passed a Bill that proposed to control prices of essential goods including maize, rice, wheat, sugar, cooking oil, petrol, diesel and paraffin. The Bill was later blocked by the Kenyan President.

Other things being equal, a maximum price for a good set below the equilibrium market price would have been expected to cause

(1)

- A** an increased quantity of the good supplied
- B** an increase in the consumption of the good
- C** no effect in the market
- D** an excess demand for the good

Answer

Explanation

(3)

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(Total for Question 4 = 4 marks)

5

Foodstuff	Income-elasticity of demand	Price-elasticity of demand
Pulses	0.72	-0.65
Cereals	0.19	-0.03
Milk	1.64	-1.04

(Source: 'Estimation of Demand Elasticity for Food Commodities in India' Praduman Kumar, Arjani Kumar, Shinoj Parappurathu and S.S. Raju, National Centre for Agricultural Economical and Policy Research, New Delhi – 110012)

The table shows estimates of demand elasticities in India. From this information, which of the following statements can be deduced about Indian consumer behaviour?

(1)

- A A 10% increase in the price of milk will lead to an increase in consumer expenditure on milk
- B The quantity of pulses demanded by consumers increases as the price falls
- C Cereals are an inferior good
- D As income rises, milk will account for a smaller proportion of consumer expenditure

Answer

Explanation

(3)

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(Total for Question 5 = 4 marks)

6 Geographical mobility of labour is higher in the United States (US) than in the European Union (EU).

Which of the following is the most likely explanation of this?

(1)

- A** Transport links are worse in the US than in the EU
- B** There are more grants available in the EU for individuals to relocate
- C** Most EU countries have better education and training systems than the US
- D** It is easier to obtain affordable housing in the US than in most EU countries

Answer

Explanation

(3)

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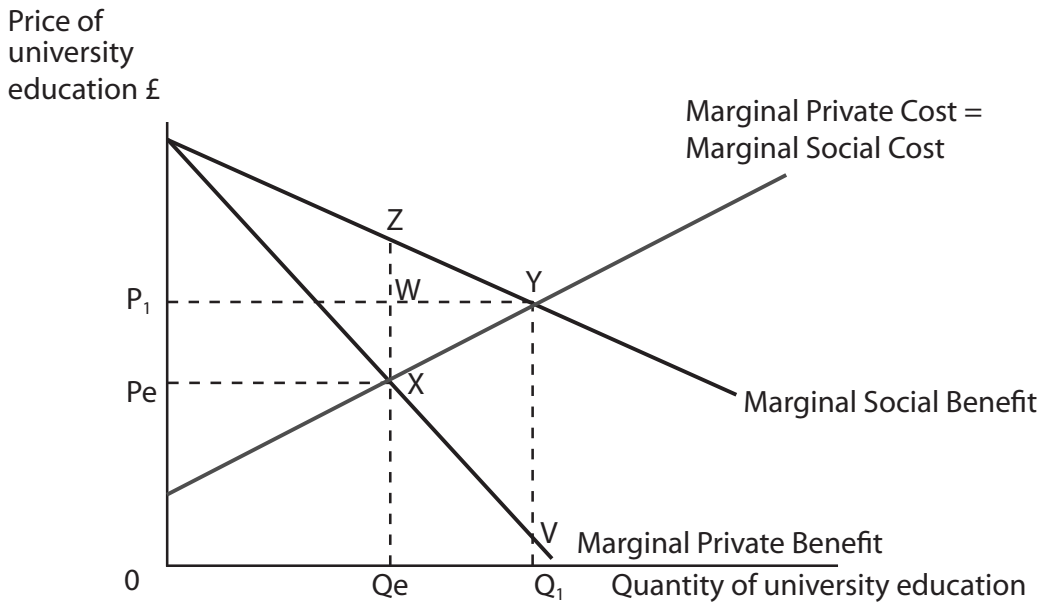
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(Total for Question 6 = 4 marks)

7

Market for university education



The diagram shows the market for university education. Assume there are no external costs. Which of the following is true?

(1)

- A The free market equilibrium quantity exceeds the social optimum quantity
- B There is market failure at quantity Q_e
- C The triangle of welfare gain is XYV
- D The marginal external benefit remains constant at all quantities

Answer

Explanation

(3)

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(Total for Question 7 = 4 marks)

8 In Zimbabwe, consumers, businesses and the government began in 2008 to use US dollars rather than the domestic currency.

The most likely reason for this was

(1)

- A** the Zimbabwean currency had ceased to act as an effective store of value
- B** US currency is in more convenient units than the Zimbabwean currency
- C** the Zimbabwean currency was being hoarded by savers
- D** high levels of investment in Zimbabwe by US firms

Answer

Explanation

(3)

(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

Section B: Answer either Question 9 or Question 10.

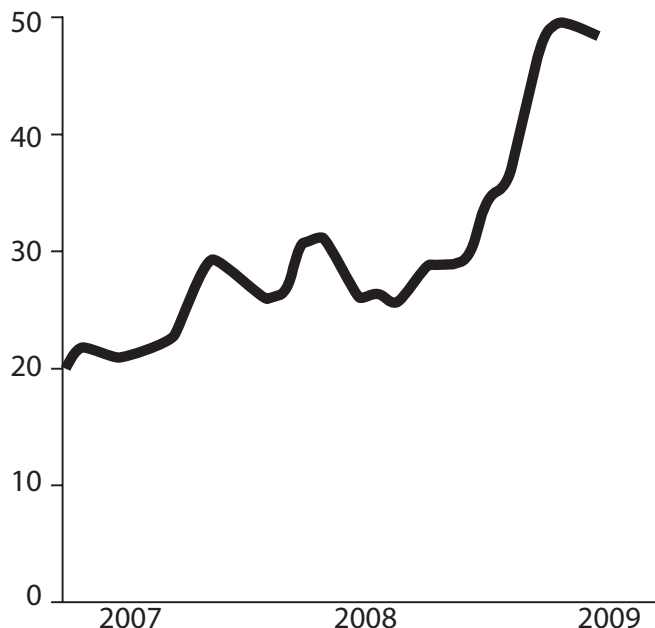
**If you answer Question 9 put a cross in this box .
Question 10 starts on page 23.**

You should spend 55 minutes on this section.

9 The price of sugar

Figure 1 World price of sugar

US cents per kilo



(Source: www.mongabay.com/images/commodities/charts/sugar.html)

Extract 1 Soaring price of sugar

Sugar prices around the world more than doubled over the last few years, reaching 50.8 US cents per kilo in 2009, a 28-year high.

Sugar production in Brazil, the world's largest producer, has been hit by heavy rain. Brazil is also diverting part of its sugar cane crop to making ethanol fuel for use by motor vehicles.

5

Speculative demand has also forced up sugar prices. Eugene Weinberg, an analyst at Commerzbank, pointed out that cash-rich speculators have purchased sugar stocks in anticipation of its price rising to even higher levels next year.

For much of the last decade, sugar has not been a very profitable crop compared to other types of farming. Recent high prices cannot result in an immediate increase in sugar production, as it may take up to two years for supply to respond. Destroying rainforests as a means to increase sugar production has a negative environmental and social impact.

10

(Source: adapted from 'Food groups say US is running out of sugar', by Alexandra Frean, *The Times*, 13 August, 2009 and 'Chasing a sugar rush: global deficit drives price rises', by Sean O'Grady, *The Independent*, 11 August, 2009)

Extract 2 US faces sugar shortage

America's obesity problems may soon shrink amid fears that the makers of treats, such as Oreo cookies, Krispy Kreme doughnuts and Hershey bars, could run out of sugar. Leading food companies, including Kraft, Mars and Hershey, have warned the government that there may be a serious sugar shortage unless it allows more imports of the commodity into the country. The food companies blame the shortage on the government's policy of restricting imports of sugar in order to protect the incomes of US sugar farmers in the Midwest. 5

Rising sugar prices have affected the production costs of chocolate and other confectionery companies. However, there are many other costs to consider. At Mars, for example, sugar is third on its list of ingredient costs behind cocoa and milk. Moreover, the price of milk has been falling over recent years, helping to offset the increase in sugar costs. 10

Chocolate and other confectionery companies have experienced increased sales during the recession as people attempt to cheer themselves up by consuming more sugary treats. 15

(Source: adapted from 'Food groups say US is running out of sugar', by Alexandra Frean, *The Times*, 13 August, 2009 and 'Chasing a sugar rush: global deficit drives price rises', by Sean O'Grady, *The Independent*, 11 August, 2009)

- (a) With reference to Extract 1, explain why the price elasticity of supply of sugar is likely to change over time. (4)
- (b) With reference to Figure 1 and Extract 1, explain why the price of sugar 'more than doubled over the last few years'. Use a supply and demand diagram in your answer. (6)
- (c) With reference to the last paragraph in Extract 2 and your own knowledge, discuss whether chocolate and other confectionery are likely to be normal or inferior goods. (10)
- (d) With reference to Extract 2, evaluate the likely effects of the increase in the price of sugar on the producers of chocolate and other confectionery. Illustrate your answer with a supply and demand diagram. (14)
- (e) To what extent is market failure likely to result from the consumption **and** production of sugar? (14)

(a) With reference to Extract 1, explain why the price elasticity of supply of sugar is likely to change over time.

(4)

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(b) With reference to Figure 1 and Extract 1, explain why the price of sugar 'more than doubled over the last few years'. Use a supply and demand diagram in your answer.

(6)

Area for drawing a supply and demand diagram and providing an explanation. The area contains horizontal dotted lines for writing.

(c) With reference to the last paragraph in Extract 2 and your own knowledge, discuss whether chocolate and other confectionery are likely to be normal or inferior goods.

(10)

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(d) With reference to Extract 2, evaluate the likely effects of the increase in the price of sugar on the producers of chocolate and other confectionery. Illustrate your answer with a supply and demand diagram.

(14)

Area for drawing a supply and demand diagram and writing an evaluation. The area contains horizontal dotted lines for writing and a space for the diagram.

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing. This area is intended for students to provide answers or show their work during an assessment.

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(e) To what extent is market failure likely to result from the consumption **and** production of sugar?

(14)

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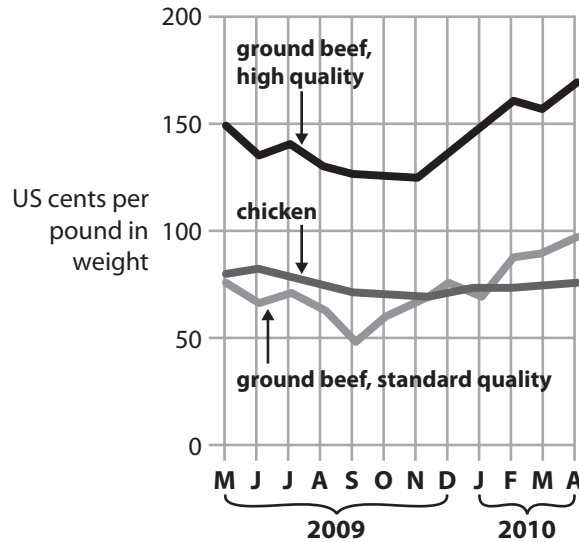
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(Total for Question 9 = 48 marks)

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

10 The price of beef

Figure 1 The price of beef and chicken for fast food restaurants 2009 – 2010



Extract 1 Rising price of beef

It is **not** a happy time in American fast food restaurants. Rising beef prices have reduced profit margins at the McDonalds, Burger King and Wendy chains. They have found it difficult to pass on higher beef prices to their customers through the sale of burgers such as the 'Big Mac' and 'Whopper'. Instead, the fast food restaurants have responded by promoting sales of chicken burgers and fish fillets.

5

Beef prices have risen due to higher costs for cattle feed and severe drought conditions in Australia and New Zealand (the main suppliers of beef for American fast food restaurants).

However, there is some good news. The fast food restaurants have benefited from the recession as consumers made savings by switching from eating at expensive restaurants to cheaper burger bars.

10

(Source: © *The Times* 'Increase in meat prices has burger lovers asking: where's the beef?', Alexandra Frean, 24 May 2010)

Extract 2 Cattle farms damaging the rainforest

Deforestation in Brazil releases an estimated 400 million tonnes of carbon dioxide into the atmosphere every year, making the country one of the biggest emitters of the gas in the world. An average of 7,330 square miles of rainforest has been lost each year since 1995. The destruction of rainforest has accelerated over the past few years due to soaring beef and soya prices. Farmers are burning more rainforest to turn land into cattle ranches and into fields for growing crops. 5

However, the President of Brazil announced plans to reduce deforestation by subsidising sustainable development projects. These include replanting trees and creating eco-friendly tourism as alternative means of providing employment and income for local communities. The amount of funds made available has not been revealed. 10

The proposals also include an increase in the policing of forested areas and severe penalties for those breaking the law through illegal logging and farming.

(Source: © Guardian News & Media Ltd 2008, adapted from 'Brazil sets target to slow Amazon deforestation', by David Ljunggren)

- (a) With reference to Figure 1 and the second paragraph of Extract 1, explain the causes of the increase in the price of beef. Use a supply and demand diagram in your answer. (6)
- (b) Using cross elasticity of demand, explain the likely relationship between the price of beef and the demand for chicken and fish. (4)
- (c) Assess whether beef and beef burgers are likely to be normal goods or inferior goods. (10)
- (d) Using the concepts of external costs and market failure, examine the possible economic effects of farmers 'burning more rainforest to turn land into cattle ranches and into fields for growing crops'. (Extract 2, lines 5–6). Use an appropriate diagram in your answer. (14)
- (e) Discuss the possible economic effects of the government providing subsidies to support sustainable development projects such as those referred to in Extract 2. (14)

(a) With reference to Figure 1 and the second paragraph of Extract 1, explain the causes of the increase in the price of beef. Use a supply and demand diagram in your answer.

(6)

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(b) Using cross elasticity of demand, explain the likely relationship between the price of beef and the demand for chicken and fish.

(4)

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(c) Assess whether beef and beef burgers are likely to be normal goods or inferior goods.

(10)

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(d) Using the concepts of external costs and market failure, examine the possible economic effects of farmers ‘burning more rainforest to turn land into cattle ranches and into fields for growing crops’. (Extract 2, lines 5–6). Use an appropriate diagram in your answer.

(14)

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(e) Discuss the possible economic effects of the government providing subsidies to support sustainable development projects such as those referred to in Extract 2.

(14)

Dotted lines for writing the answer.

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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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