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**Pearson Edexcel  
Level 3 GCE**

Centre Number

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Candidate Number

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**Economics A**  
**Advanced Subsidiary**  
**Paper 1: Introduction to markets and market failure**

Sample assessment material for first teaching  
 September 2015  
**Time: 1 hour 30 minutes**

Paper Reference  
**8EC0/01**

**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.
- 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  
 – *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.*

**Advice**

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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**SECTION A**

**Answer ALL questions. Write your answers in the spaces provided.**

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

**1 Statement 1:** The UK government increased education spending from £86.9 billion in 2012 to £87.3 billion in 2013.

**Statement 2:** The government should allocate an additional £1 billion to schools to improve the quality of education.

(a) Which **one** of the following best describes the two statements above? (1)

<b>Statement 1</b>	<b>Statement 2</b>
<b>A</b> Positive	Positive
<b>B</b> Positive	Normative
<b>C</b> Normative	Positive
<b>D</b> Normative	Normative

Answer

(b) With reference to the statements above explain what is meant by external benefits. (3)

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**(Total for Question 1 = 4 marks)**

2 The diagram shows a production possibility frontier (PPF) for an economy.



**Diagram A**

(a) Define the term 'production possibility frontier'.

(2)

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(b) The opportunity cost of a movement from point X to point Y is:

(1)

- A 10 units of consumer goods
- B 20 units of capital goods
- C 30 units of capital goods
- D 90 units of consumer goods

Answer

(c) Illustrate economic growth on **Diagram A** on page 4.

(1)

**(Total for Question 2 = 4 marks)**

3 In 2013, the UK had more off-shore wind turbines than all other countries in the world combined. The UK government announced plans to close five coal-burning power stations and to build five nuclear power stations to produce electricity. One nuclear power plant at Hinckley Point will take 10 years to be fully operational.

(a) Which **one** of the following is the correct classification for these energy sources?

(1)

	<b>Wind turbines</b>	<b>Coal</b>
<b>A</b>	non-renewable	renewable
<b>B</b>	non-renewable	non-renewable
<b>C</b>	renewable	non-renewable
<b>D</b>	renewable	renewable

Answer

(b) Explain the likely price elasticity of supply for energy generated by nuclear power plants.

(3)

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**(Total for Question 3 = 4 marks)**

4 The UK government allocated £39 billion to defence in 2012/2013.

(a) Explain why defence is a public good.

(3)

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(b) Which **one** of the following is an example of market failure?

(1)

- A The price of a good falling to clear the market when there is excess supply
- B The over consumption of cigarettes owing to consumers' lack of information
- C A rise in unemployment caused by an increase in the minimum wage
- D Consumers experiencing diminishing marginal utility

Answer

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



5 According to research, 57% of UK consumers would consider changing insurance providers in the next 12 months.

(a) The underlying assumptions of rational decision making are that:

(1)

- A consumers aim to maximise utility and firms aim to minimise profits
- B consumers aim to minimise utility and firms aim to maximise profits
- C consumers aim to maximise utility and firms aim to maximise profits
- D consumers aim to maximise utility and firms aim to maximise costs

Answer

(b) Explain **one** possible reason why 43% of consumers in the UK would not consider changing insurance providers, even though they may be offered lower prices by other insurance providers.

(3)

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**(Total for Question 5 = 4 marks)**

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**TOTAL FOR SECTION A = 20 MARKS**



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**QUESTION 6 BEGINS ON THE NEXT PAGE.**

**SECTION B**

**Read Figure 1 and the following extracts (A to C) before answering Question 6.**

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

**The market for beef****Extract A****Boost to UK farmers**

The horsemeat scandal of 2013 affected the demand for many processed meat products. Traces of horsemeat were discovered in products labelled as beef, manufactured by many overseas suppliers. With many beef products customers had little knowledge about where the beef came from. If the manufacturers knew, they were not always making this clear to customers.

5

As a result of the scandal, the proportion of domestically-sourced beef in British shops rose from 81% to 83% in 2013. Consequently, the prices farmers received for beef in the UK rose by 3%.

Another potential boost for UK farmers is demand from emerging markets. As the middle class grows in countries such as China, so does their demand for protein and dairy products. British meat and dairy products are seen as offering a stable and proven supply chain, unlike in China where baby milk has been found with traces of the plastic melamine. State-owned Chinese companies are approaching dairy farmers directly to secure millions of litres of UK milk.

10

(Source: 'Boom in farming as UK demands quality' by Graham Ruddick, *The Telegraph* 25th Jan 2014. <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10596862/Boom-in-farming-as-UK-demands-quality.html>)

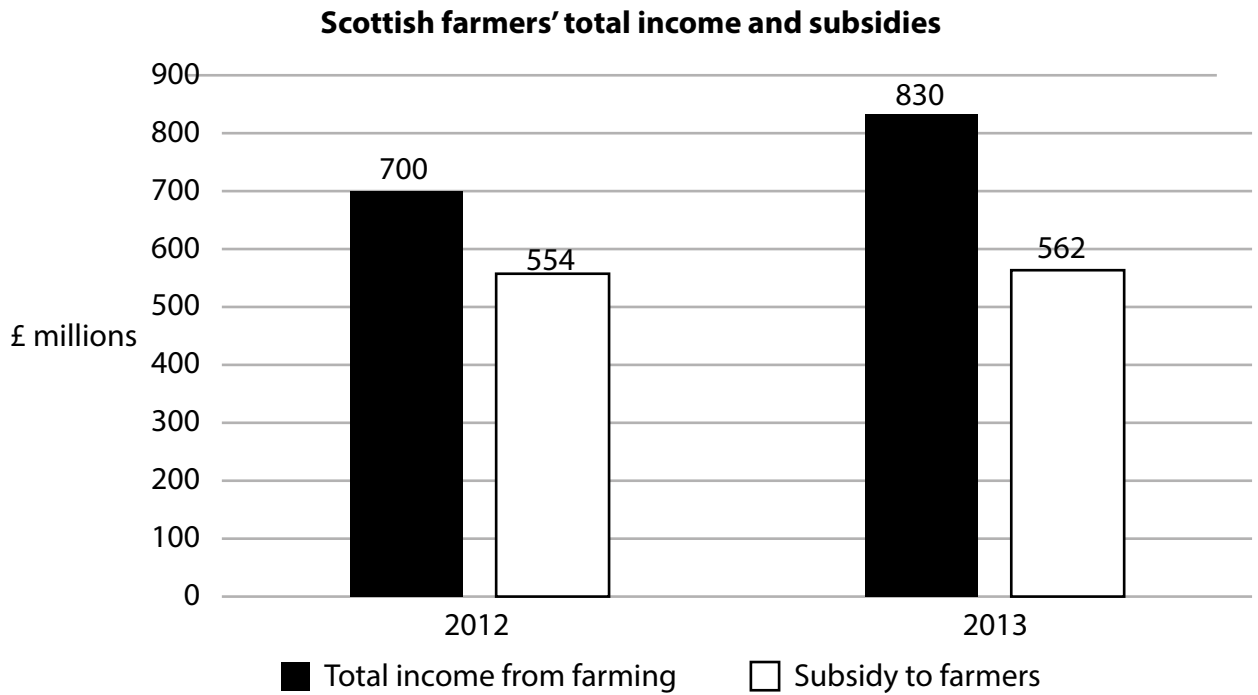


Figure 1

**Total income from farming and subsidies for Scottish farms 2012 and 2013**

**Extract B**

**Reliance on farm subsidies**

There is a reliance on subsidies in Scottish farms. The argument for subsidies is that farming is vital to the rural economy and that support payments to farmers can benefit the local community. The counter argument is that farmers should make a living from the free market for what they produce.

Farm subsidies will continue in the European Union. In many of the member states, agriculture and the vast food industry that depends on it still hold significant political influence. Although farmers in the UK complain that their share of EU subsidies is already too low, changes to the EU farm subsidies due to take effect in 2015 mean they are likely to be slashed by one third to one half.

5

(Source: adapted from 'Even the best farmers would struggle in a free market,' *The Southern Reporter*, 6th Feb 2014, <http://www.thesouthernreporter.co.uk/opinion/columnists/even-the-best-farmers-would-struggle-in-a-free-market-1-3296583>)

## Extract C

### Hidden costs of beef

Eating too many beefburgers has a high cost on the planet and people. The statistics are significant: it takes 1 800 gallons of water to make a single pound of grain-fed beef and 30% of the world's land is used to raise livestock. Cows produce more climate-changing greenhouse gases than the emissions from 22 million cars a year. In addition, tons of fertilisers and toxic contaminants are used in the production of beef.

5

If Americans stopped eating meat and cheese for just one day a week, the environmental impact would be the equivalent of taking 7.6 million pollution-producing cars off the road for a year, according to a recent report.

(Source: 'News group serves up hidden costs of hamburgers,' by Sarah Henry, August 10, 2012 <http://www.berkeleyside.com/2012/08/10/news-group-serves-up-the-hidden-costs-of-hamburgers/>)

6 (a) Explain why 'the prices farmers received for beef in the UK rose by 3%' in 2013 (Extract A, lines 7 and 8). Include a supply and demand diagram in your answer.

(5)

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(c) Explain **two** likely impacts on dairy farmers in the UK of the growth in the middle classes in emerging markets such as China.

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(d) With reference to Figure 1, calculate the value of subsidies as a percentage of total Scottish farm income for 2012 and 2013. You are advised to show your working.

(4)

2012

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2013

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(e) With reference to Figure 1, Extract 2 and your own knowledge, discuss the reasons for subsidies being paid to Scottish farmers.

(15)

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**EITHER**

- (f) Using the concept of external costs, evaluate the possible economic effects of increased beef production. Use an appropriate diagram in your answer. (20)

**OR**

- (g) Evaluate the impact of a guaranteed minimum price in the beef market on consumers and producers. Use an appropriate diagram in your answer. (20)



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**(Total for Question 6 = 60 marks)**

**TOTAL FOR SECTION B = 60 MARKS**  
**TOTAL FOR PAPER = 80 MARKS**

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