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Surname	Other names
Centre Number	Candidate Number
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Edexcel GCE	
Economics	
Advanced Subsidiary	
Unit 1: Competitive Markets: How they work and why they fail	
Tuesday 15 January 2013 – Afternoon Time: 1 hour 30 minutes	Paper Reference 6EC01/01
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** 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.*
- Questions labelled with an **asterisk** (*) are ones where the quality of your written communication will be assessed
– *you should take particular care on these questions 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.
- Keep an eye on the time.
- 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 Statement 1: In the UK, a 50% tax rate applies on taxable earnings over £150 000 a year.

Statement 2: The 50% tax rate is unfair to high income earners since it reduces their living standards.

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

Answer

Explanation

(3)

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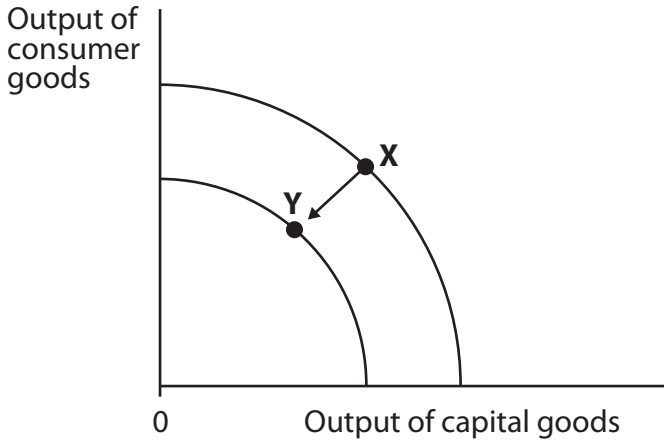
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(Total for Question 1 = 4 marks)

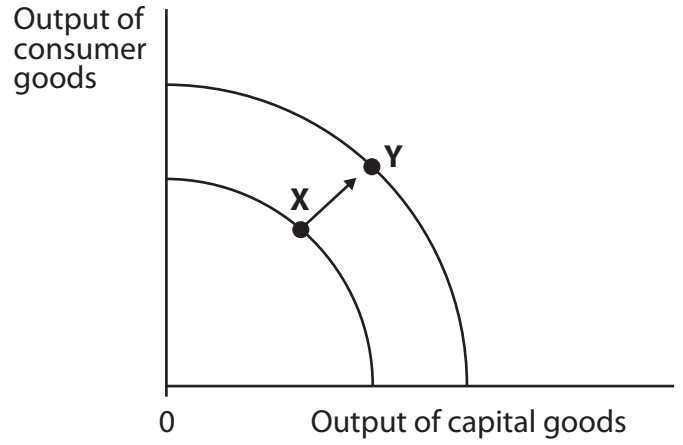


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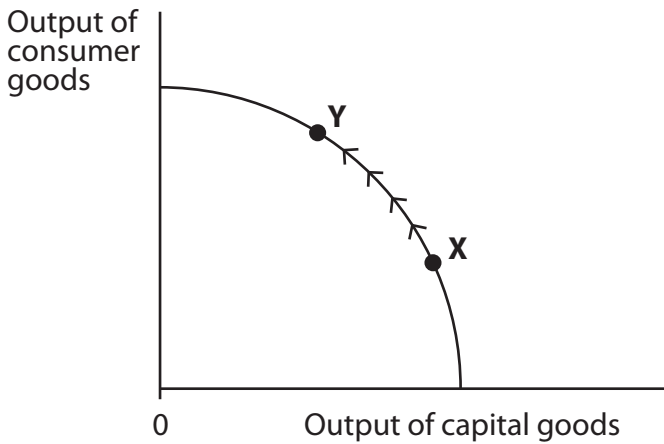
Option A



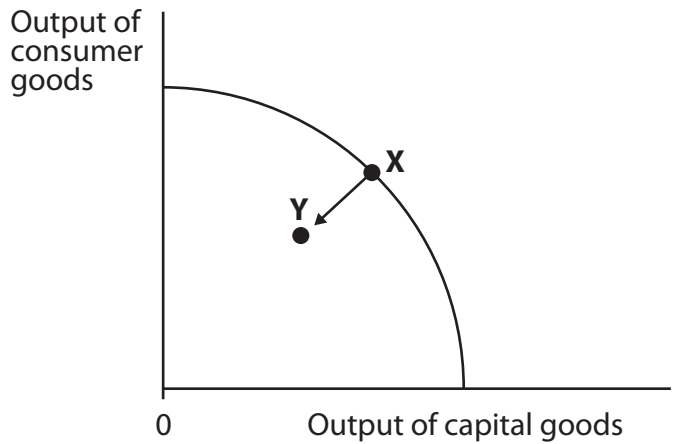
Option B



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

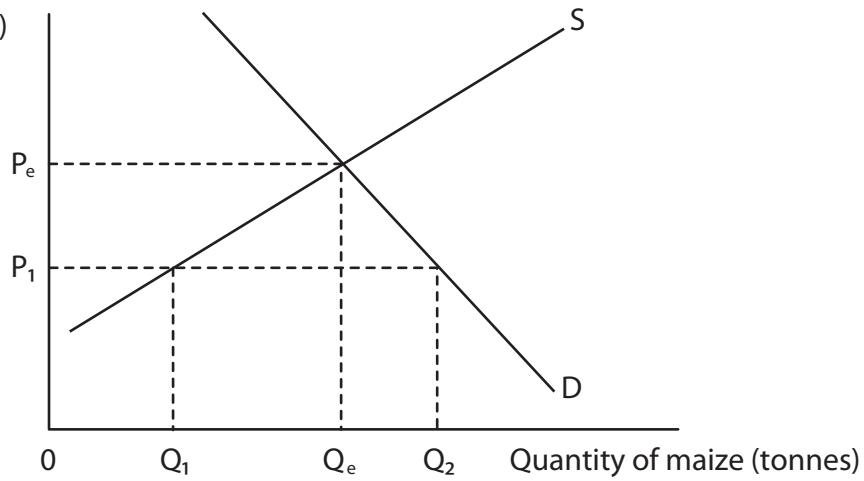
(3)

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(Total for Question 2 = 4 marks)



3 Price per tonne (£)



The diagram shows a competitive market for maize. Assuming the current price is P_1 , the mostly likely outcome is

(1)

- A quantity supplied will fall
- B demand curve will shift to the left
- C price will rise
- D quantities supplied and demanded will remain unchanged

Answer

Explanation

(3)

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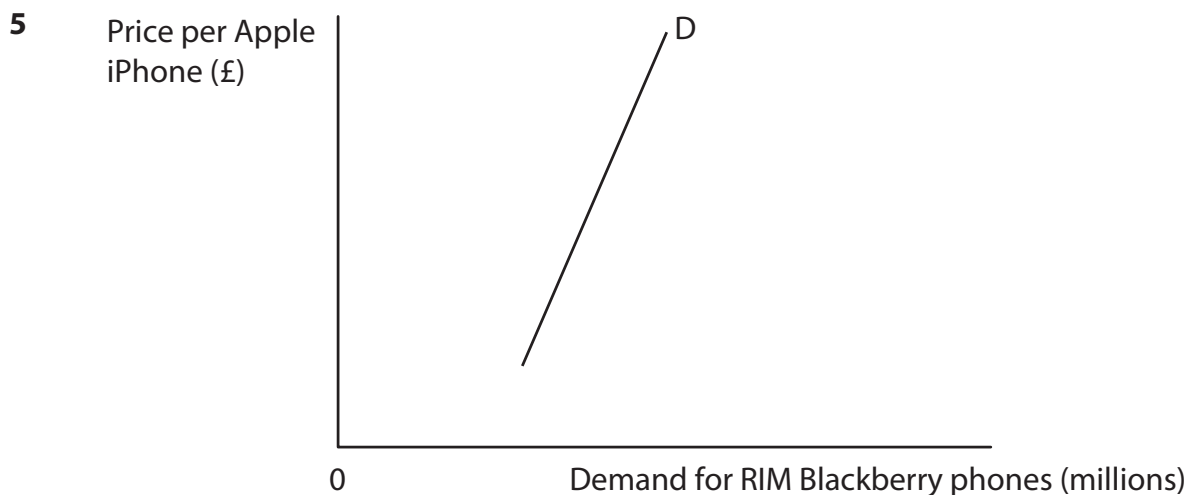
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(Total for Question 3 = 4 marks)





The diagram shows the relationship between the **price** of the Apple iPhone and the **demand** for the RIM Blackberry phone. It can be deduced from the diagram that these two goods

(1)

- A are price elastic in demand
- B have a negative cross elasticity of demand
- C have a zero cross elasticity of demand
- D are substitutes for each other

Answer

Explanation

(3)

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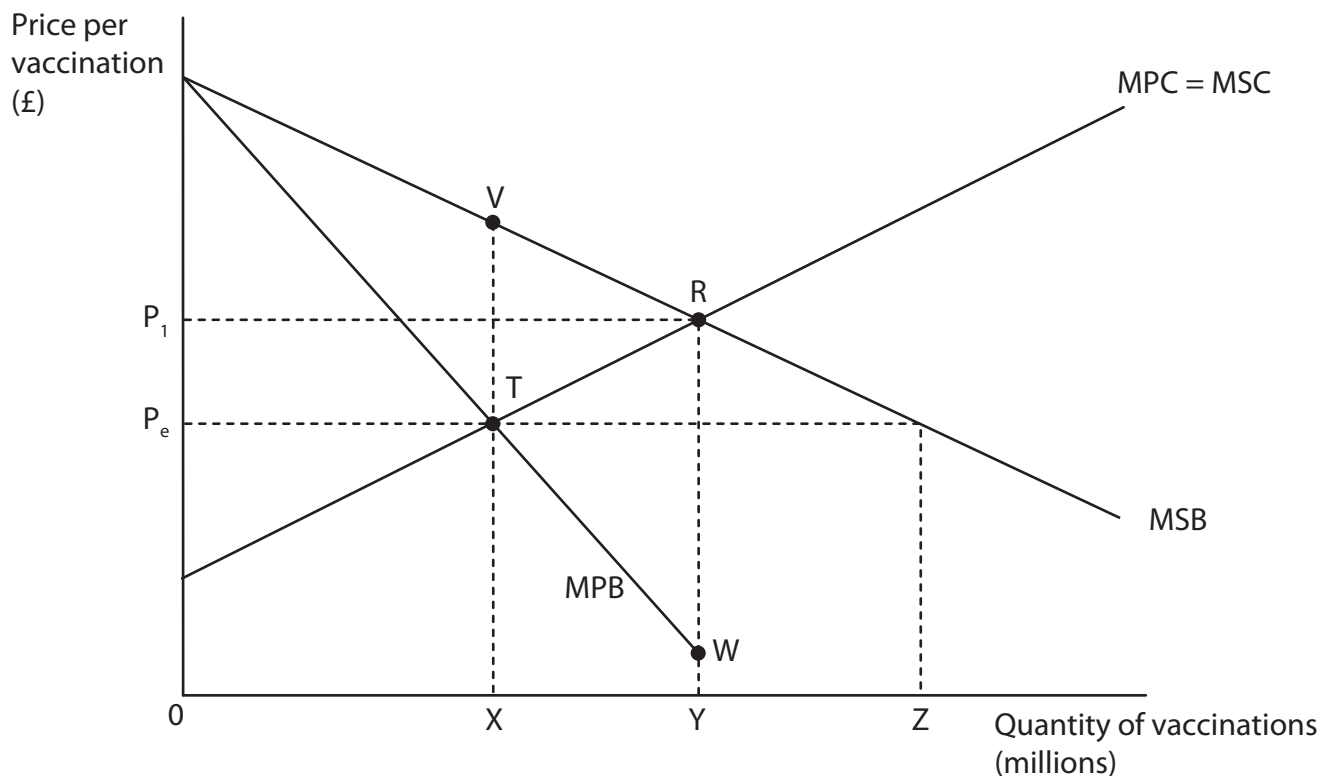
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(Total for Question 5 = 4 marks)



7

Market for vaccinations



The diagram shows a free market for vaccinations in which the current equilibrium level of output is X and price P_e. At this level of output there is

(1)

- A an external cost
- B market failure
- C an excess supply
- D government failure

Answer



Explanation

(3)

Area with horizontal dotted lines for writing the explanation.

(Total for Question 7 = 4 marks)



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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 26.

You should spend 55 minutes on this section.

9 North Atlantic fishing



Extract 1 EU and mackerel fish quotas

North Atlantic fish stocks are collapsing through mismanagement by governments. A breakdown in the agreement over the size of fish catches between the European Union (EU), Norway, Iceland and the Faroe Islands means the last great stock of mackerel is under threat. The quantity of mackerel caught has risen by almost 50% this year and is now well beyond the level required to remain a sustainable resource. If mackerel disappear, so do the many links in the food chain which depend on them. The fish catches need to be small enough to maintain breeding stocks for future generations.

5

Global warming has caused mackerel to migrate further north to the seas around Iceland and the Faroe Islands and these two countries are massively exceeding the agreed fish catches, known as quotas. Both of these non-EU countries are catching over 150 000 tonnes of mackerel this year – over-fishing in excess of their agreed limit of 100 000 tonnes – whilst the EU countries have maintained their fish catches. More than a third of the mackerel caught by Icelandic fishing boats is fed to animals and farmed fish or turned into fertiliser. It is an astonishing waste. Other fish stocks in Iceland's waters such as whiting and herring have been wiped out.

10

15

To make matters worse, the EU fish quota system means that over 30% of fish catches are thrown back into the sea. Fishing boats are not allowed to land or sell more than their allowances, otherwise they risk severe fines.

(Source: adapted from George Monbiot, © Guardian News and Media Ltd, 8th August 2011)



Extract 2 Protecting fish stocks

A Royal Commission on Environmental Pollution recommended that the UK government prevents all fishing in 30% of the UK's coastal waters. Fish could then reproduce safely, greatly increasing the size of stocks. However, fish swim where they want – they do not remain in any one country's coastal waters.

Another way to protect the fish stocks is for the UK government to subsidise the development of fish farms, which currently account for a third of all fish directly consumed. Many believe this has relieved pressure from wild fish stocks as well as creating thousands of jobs in remote communities. 5

Fish farming does have its critics. For example, disease spreads rapidly in overpopulated fish farms and the local wild fish population can be contaminated. Furthermore, when large numbers escape from the farms, this affects the overall gene pool. 10

(Source: adapted from George Monbiot, © Guardian News and Media Ltd, 8th August 2011)

- (a) With reference to Extract 1, outline the meaning of the term *sustainable resource* (line 5). (4)
- (b) Using the information provided in Extract 1 and your own knowledge, explain **two** possible causes of the decrease in fish stocks over recent years. (6)
- *(c) Examine the likely external costs from over-fishing of mackerel. Use an appropriate diagram in your answer. (14)
- (d) With reference to Extract 2, discuss the likely economic impact if the UK government prevents fishing in 30% of the UK's coastal waters. (10)
- *(e) Evaluate the use of government subsidies to fish farms. Use an appropriate diagram in your answer. (14)



(a) With reference to Extract 1, outline the meaning of the term *sustainable resource* (line 5).

(4)

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*(c) Examine the likely external costs from over-fishing of mackerel. Use an appropriate diagram in your answer.

(14)

Area with horizontal dotted lines for writing the answer.



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*(e) Evaluate the use of government subsidies to fish farms. Use an appropriate diagram in your answer.

(14)

Area with horizontal dotted lines for writing the answer.



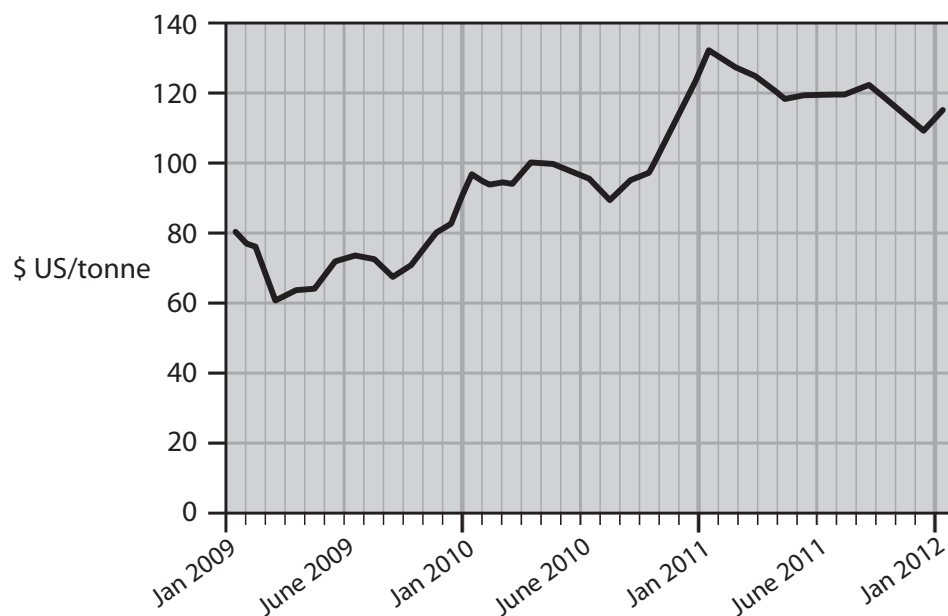
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If you answer Question 10 put a cross in this box .

10 The price of coal

Figure 1: The rising price of Australian coal



(Source: © Worldbank.org)

Extract 1 Floods hit Australian supply of coal

Severe floods have damaged many of Australia's coal mines and railway lines, dramatically reducing the production and transportation of coal and increasing its price by up to 35% per tonne from November 2010 to January 2011. A vast area has been affected by the floods and the cost of pumping out the water and repairing the mines could run into hundreds of millions of dollars. The floods have also led to an increase in speculative buying of coal by stock market traders anticipating shortages.

5

Despite the higher price of coal and reduced output, the revenues of the big Australian coal producers have remained the same.

The increase in coal prices is expected to put pressure on electricity prices over the coming months. The UK generates about one quarter of its electricity by burning coal, much of which is imported from overseas, including Australia.

10

(Source: adapted from © Times Newspapers Limited, 5th January 2011)



Extract 2 Carbon emissions trading scheme in Australia

Around 500 of Australia's biggest polluting companies will be forced into an emissions trading scheme in 2015, similar to that operating in the European Union. The Australian Government intends to achieve a 5% cut in carbon emissions by 2020.

Although Australia accounts for just 1.5% of global greenhouse gas emissions, its heavy reliance on coal fired power stations makes it one of the world's biggest carbon polluters per head of population. It is also the world's biggest exporter of coal. 5

Initially, the companies in the scheme will receive 94.5% of their carbon permits for free, and then obtain government subsidies to purchase the other 5.5% of permits, so that no additional costs to the firms arise. Gradually over time, these subsidies will be removed. Emissions trading schemes have also attracted interest from China and South Korea. 10

However, the scheme is a blow to the Australian mining industry which faces carbon costs of at least 25 billion Australian dollars by 2020. According to Anglo American Corporation, some 40 000 jobs are directly at risk and a further 100 000 indirectly. It also believes some mining investment projects will be cancelled, adding further to structural unemployment. Government training programmes and relocation subsidies may be required to improve the mobility of labour. 15

(Source: adapted from © *The Financial Times*, 10th July 2011 and 8th November 2011)

- (a) With reference to Figure 1 and the first paragraph in Extract 1, outline the causes of the increase in Australian coal prices in January 2011. Illustrate your answer with a demand and supply diagram. (6)
- (b) What does the evidence in the second paragraph of Extract 1 suggest about the price elasticity of demand for Australian coal? Explain your answer. (4)
- (c) Examine the likely economic effects of an increase in Australian coal prices on UK electricity prices. (10)
- *(d) With reference to Extract 2 and your own knowledge, assess the benefits of a system of tradable pollution permits for reducing carbon emissions. (14)
- *(e) Discuss **two** possible government measures to **improve** the mobility of labour in the coal mining industry. (14)



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