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Surname

Other names

**Pearson Edexcel  
International GCSE**

Centre Number

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# Economics

Level 1/2

**Paper 1: Microeconomics and Business Economics**

Sample assessment material for first teaching  
September 2017

**Time: 1 hour 30 minutes**

Paper Reference

**4EC1/01**

**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.
- Answer **all** questions.
- 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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Some 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 ☒.

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

1 (a) What is the name given to a firm that dominates a market? (1)

|                          |                                  |
|--------------------------|----------------------------------|
| <input type="checkbox"/> | <b>A</b> A monopoly firm         |
| <input type="checkbox"/> | <b>B</b> An oligopoly firm       |
| <input type="checkbox"/> | <b>C</b> A primary sector firm   |
| <input type="checkbox"/> | <b>D</b> A secondary sector firm |

(b) A firm has a variable cost of €25 and charges a price of €75 per item. It sells 30 000 items. What is the total revenue for the firm? (1)

|                          |                     |
|--------------------------|---------------------|
| <input type="checkbox"/> | <b>A</b> €400       |
| <input type="checkbox"/> | <b>B</b> €30 075    |
| <input type="checkbox"/> | <b>C</b> €750 000   |
| <input type="checkbox"/> | <b>D</b> €2 250 000 |

(c) What is meant by privatisation? (2)

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(d) Define the term public sector. (1)

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(e) Define the term profit. (1)

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A firm makes 1000 items. Its total revenue, total costs and total variable costs are given in Figure 1.

| Quantity | Total revenue | Total fixed costs | Total variable costs |
|----------|---------------|-------------------|----------------------|
| 1000     | £150 000      | £45 000           | £58 000              |

**Figure 1**

- (f) Using the data in Figure 1, calculate the profit earned by the firm when it makes 1000 items. You are advised to show your working.

(2)

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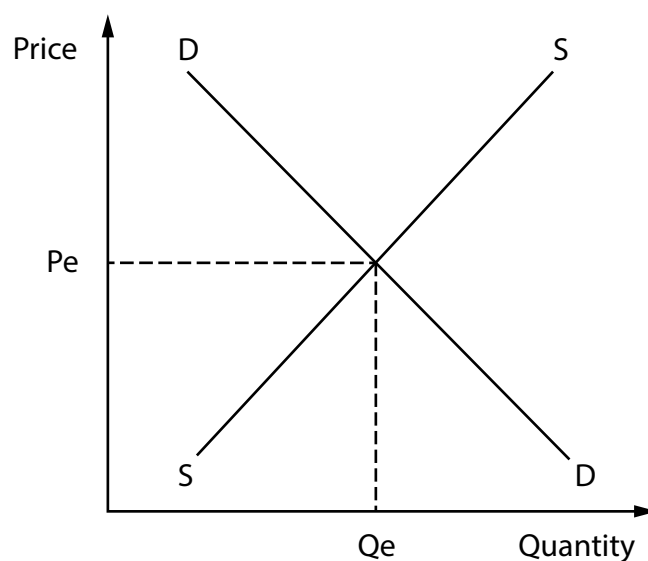
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- (g) Using the diagram below, draw the effects of the introduction of a subsidy paid to producers on equilibrium price and quantity. Label the new curve, the new equilibrium price and quantity.

(3)



**Figure 2**

Some farmers have seen the price they receive for their crop fall. This means the income they earn has fallen. To support farmers the government pays them a subsidy.

- (h) Explain **one** disadvantage of the government introducing subsidies to support farmers.

(3)

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The UK government has introduced an indirect tax on drinks that contain high levels of sugar. The tax should reduce the consumption of high sugar drinks. Some argue that brands like Coca-Cola® and Pepsi® have price inelastic demand because customers are loyal to these brands.

- (i) With reference to the data above and your knowledge of economics, analyse the impact of the introduction of an indirect tax on the consumption of Coca-Cola and Pepsi.

(6)

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**(Total for Question 1 = 20 marks)**

- 2 Young Tablet Covers is a firm based in Hong Kong. It produces colourful covers designed for children to protect their tablet computers. The quantity demanded and quantity supplied at different prices is shown in Figure 3.

| Price in Hong Kong dollars (HKD) | Quantity demanded per week | Quantity supplied per week |
|----------------------------------|----------------------------|----------------------------|
| 100                              | 900                        | 400                        |
| 110                              | 750                        | 500                        |
| 120                              | 600                        | 600                        |
| 130                              | 450                        | 700                        |

**Figure 3**

- (a) With reference to the data in Figure 3, what is the equilibrium price of a tablet cover?

(1)

|                          |                  |
|--------------------------|------------------|
| <input type="checkbox"/> | <b>A</b> 100 HKD |
| <input type="checkbox"/> | <b>B</b> 110 HKD |
| <input type="checkbox"/> | <b>C</b> 120 HKD |
| <input type="checkbox"/> | <b>D</b> 130 HKD |

- (b) With reference to the data in Figure 3, what is the excess demand or supply when the price of a tablet cover is 100 HKD?

(1)

|                          |  |
|--------------------------|--|
| <input type="checkbox"/> | <b>A</b> The excess demand will be 250 tablet covers |
| <input type="checkbox"/> | <b>B</b> The excess demand will be 500 tablet covers |
| <input type="checkbox"/> | <b>C</b> The excess supply will be 250 tablet covers |
| <input type="checkbox"/> | <b>D</b> The excess supply will be 500 tablet covers |

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(c) (i) State the formula for price elasticity of demand.

(1)

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(ii) Calculate the price elasticity of demand for a tablet cover when price increases by 10% and quantity demanded falls by 20%. You are advised to show your working.

(2)

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(d) State **one** factor that will cause the demand curve to shift to the right.

(1)

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Bespoke Bikes manufactures bicycles. Each worker produces bicycles from start to finish. Bespoke Bikes has decided to introduce a division of labour in the production of its bicycles.

(e) What is meant by the 'division of labour'?

(2)

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(f) Explain **one** advantage of the division of labour for Bespoke Bikes.

(3)

Bangladesh increased the minimum wage for clothing workers by 77% to 5,300 taka (\$68) per month. The government in Bangladesh argued that the minimum wage would help workers earn enough money to meet their basic needs. The higher wage would encourage workers to be more productive. Businesses worry that the large increase in wages will mean that they cannot afford to employ as many staff. There are also concerns that higher wages will increase production costs.

(Source: adapted from 'Bangladesh poised to hike garment wages, but may not end strikes', by Shyamantha Asokan, October 2013 <http://www.reuters.com/article/us-bangladesh-garments-wage-idUSBRE99K02M20131021>)

(g) With reference to the data above and your knowledge of economics, assess the impact of an increase in the minimum wage for clothing workers in Bangladesh.

(9)



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**(Total for Question 2 = 20 marks)**

3 Customers are unlikely to move from one bank to another, even though they can get better savings rates at other banks.

(a) What is the most likely reason for customers not maximising their benefit by moving from one bank to another?

(1)

|                          |   |
|--------------------------|---|
| <input type="checkbox"/> | <b>A</b> Customers are always good at calculating the benefit from changing banks |
| <input type="checkbox"/> | <b>B</b> Customers have habits that are hard to stop                              |
| <input type="checkbox"/> | <b>C</b> Customers think saving is an inferior good                               |
| <input type="checkbox"/> | <b>D</b> Customers experience no opportunity costs                                |

Figure 4 shows estimates of income elasticity of demand and price elasticity of demand for cigarettes in Argentina.

| Elasticity                  | Cigarettes |
|-----------------------------|------------|
| Income elasticity of demand | +0.43      |
| Price elasticity of demand  | -0.31      |

(Source: <http://tobaccocontrol.bmj.com/content/early/2013/06/11/tobaccocontrol-2012-050711.abstract>)

**Figure 4**

(b) What does the data in Figure 4 show about cigarettes in Argentina?

(1)

|                          |  |
|--------------------------|--|
| <input type="checkbox"/> | <b>A</b> They are an inferior good and demand is price inelastic |
| <input type="checkbox"/> | <b>B</b> They are an inferior good and demand is price elastic   |
| <input type="checkbox"/> | <b>C</b> They are a normal good and demand is price elastic      |
| <input type="checkbox"/> | <b>D</b> They are a normal good and demand is price inelastic    |

An economy produces capital and consumer goods. This economy starts with unemployed resources at point X and then shifts to point Y where resources are fully employed.

- (c) In the box below, draw a production possibility curve (PPC) to show an economy moving from **point X** with unemployed resources to **point Y** where resources are fully employed.

(3)





- 4 Figure 5 shows employment in the tertiary sector in the USA in the years 1994, 2004 and 2014.

| Year | Employment in tertiary sector (millions) |
|------|--|
| 1994 | 92.3                                     |
| 2004 | 110.4                                    |
| 2014 | 128.1                                    |

(Source: <http://www.bls.gov/opub/ted/2005/dec/wk3/art01.txt>)

**Figure 5**

- (a) Calculate to one decimal place the percentage change in employment in the tertiary sector between 1994 and 2014 in the USA. You are advised to show your workings.

(2)

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### External costs in T-shirt production

According to the World Wildlife Fund (WWF), it takes 2700 litres of water to produce one T-shirt. Water is used not only to grow cotton but also to dye clothing. Cotton growers use pesticides and chemicals that pollute the water. The pesticides and chemicals that remain in the environment harm animals and plant life. The WWF has been working with governments to help reduce this pollution. It advises them to introduce more regulation and to fine companies that pollute. Clothing manufacturers argue that this will add to their costs and mean they will supply less. This may mean they employ fewer people and will help reduce water pollution as less clothing is being manufactured. Fines will punish those that pollute while also earning the government revenue it can use to clean up the pollution. The fines must also be large enough to persuade firms to stop polluting.

- (b) With reference to the data above and your knowledge of economics, analyse the external costs that can occur in the production of T-shirts.

(6)

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(c) With reference to the information given in **'External costs in T-shirt production'** and your knowledge of economics, evaluate the impact of the government introducing regulation and fines to reduce the external costs of clothing production in its country.

(12)

Area with horizontal dotted lines for writing the answer.

**(Total for Question 4 = 20 marks)**

**TOTAL FOR PAPER = 80 MARKS**