Write your name here

Surname		Other names

Pearson Edexcel
Level 3 GCE

Centre Number

Candidate Number

Economics A

Advanced Subsidiary
Paper 1: Introduction to markets and market failure

Monday 16 May 2016 – Morning
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.
- 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.*
- 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 questions. Write your answers in the spaces provided.

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 ⊠.

You are advised to spend 25 minutes on this section.

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

1 (a) Which **one** of the following is the most likely consequence of an increase in the division of labour in the production of smartphones?

(1)

    ⊠   **A**   Decrease in boredom for smartphone workers

    ⊠   **B**   Decrease in use of specialised manufacturing equipment

    ⊠   **C**   Decrease in the cost per unit of smartphones

    ⊠   **D**   Increase in training costs per worker

(b) Explain what function money has in improving specialisation in the production of smartphones.

(3)

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(Total for Question 1 = 4 marks)

2 (a) Define the term 'external benefits'.

(1)

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Diagram A shows the market for nursery school places.

Diagram A
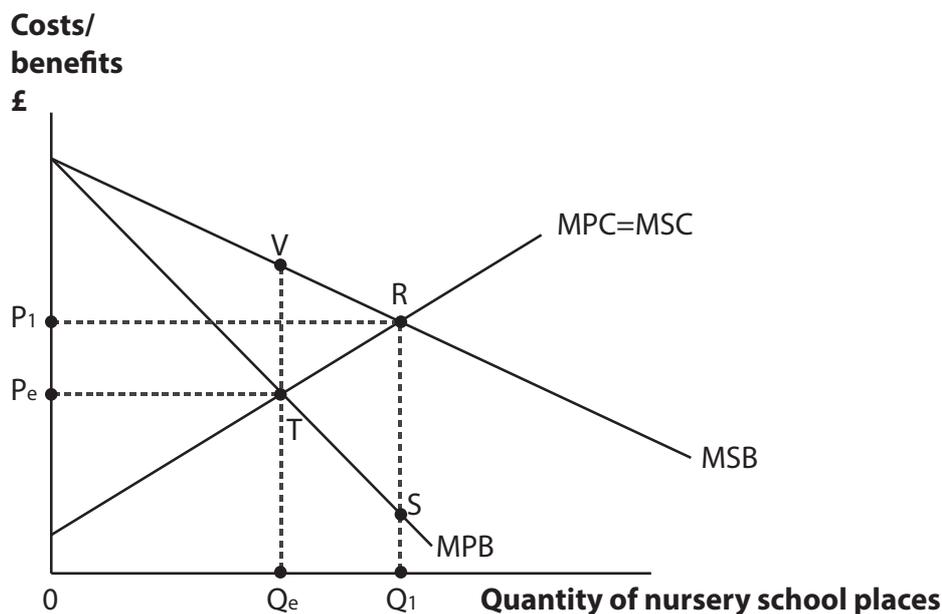
(b) Which **one** of the following measures could a government introduce to achieve the social optimum consumption of nursery school places?

It could introduce a:

(1)

⊠ **A** maximum price of $0P_1$ per unit

⊠ **B** subsidy of RS per unit

⊠ **C** tax of VT per unit

⊠ **D** minimum price of $0P_1$ per unit

(c) Annotate on Diagram A the welfare gain area and the new social optimum output resulting from successful government intervention in the market for nursery places.

(2)

(Total for Question 2 = 4 marks)

3   The area around Lake Naivasha in Kenya supplies 70% of the UK cut-rose flower market. Much of the water which the flower farms are dependent on is extracted from the lake. This has resulted in damage to fish stocks and increasing competition for water.

(Source: adapted from 'Flower Struggles', Matthew Wilson,
House and Home, Financial Times, 28 February/1 March 2015)

(a) The impact of the flower industry on workers in the fishing industry is an example of:

(1)

☒   **A**   private benefits

☒   **B**   private costs

☒   **C**   external costs

☒   **D**   external benefits

(b) Explain **one** measure the Kenyan government could use to reduce the impact of water extraction from Lake Naivasha.

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(Total for Question 3 = 4 marks)

AndMathsTutor.com

4   A restaurant in London offers an "all you can eat buffet for £8.99". At this price you can refill your plate as many times as you like.

(a)   With reference to the statement above explain what is meant by 'diminishing marginal utility'.

(3)

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(b)   If the price of an "all you can eat buffet" fell from £8.99 to £6.99, which **one** of the following is likely to happen?

(1)

☒   **A**   There is an extension in demand

☒   **B**   The demand curve shifts to the left

☒   **C**   The supply curve shifts to the left

☒   **D**   There is a contraction in demand

(Total for Question 4 = 4 marks)

5 "Since peaking at 132p a litre in July 2014, petrol prices have fallen by 20%".

(Source: adapted from UK petrol prices cut again, L Elliott, The Guardian 12-1-15
http://www.theguardian.com/business/2015/jan/12/oil-slump-uk-petrol-prices-fall)

(a) What is the expected percentage change in the quantity of petrol demanded if the price elasticity of demand is –0.2?

(1)

- ☒ **A** −0.4%
- ☒ **B** +0.4%
- ☒ **C** −4%
- ☒ **D** +4%

(b) The price elasticity of demand for petrol is –0.2. Explain the change to the total revenue of petrol stations as a result of cutting their prices.

(3)

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(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS

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QUESTION 6 BEGINS ON THE NEXT PAGE.

SECTION B

Read the following Figures (1 to 2) and Extracts (A to B) before answering Question 6.

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

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

The market for housing

Figure 1 – Estimates of the price elasticity of supply of new housing, selected countries
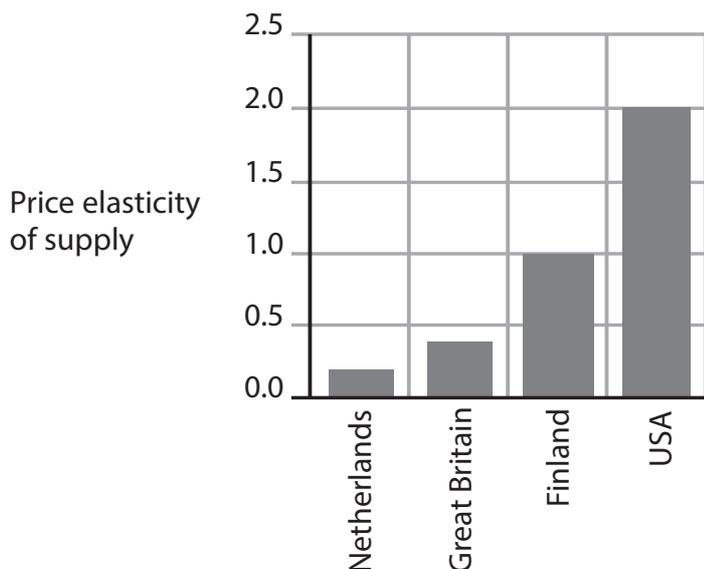
(Source: adapted from Caldera Sánchez, A. and Å. Johansson (2011), "The Price Responsiveness of Housing Supply in OECD Countries", Figure 3, OECD Economics Department Working Papers, No. 837, OECD Publishing. http://dx.doi.org/10.1787/5kgk9qhrnn33-en)

Figure 2 – Index of UK house prices (1993 = 100)
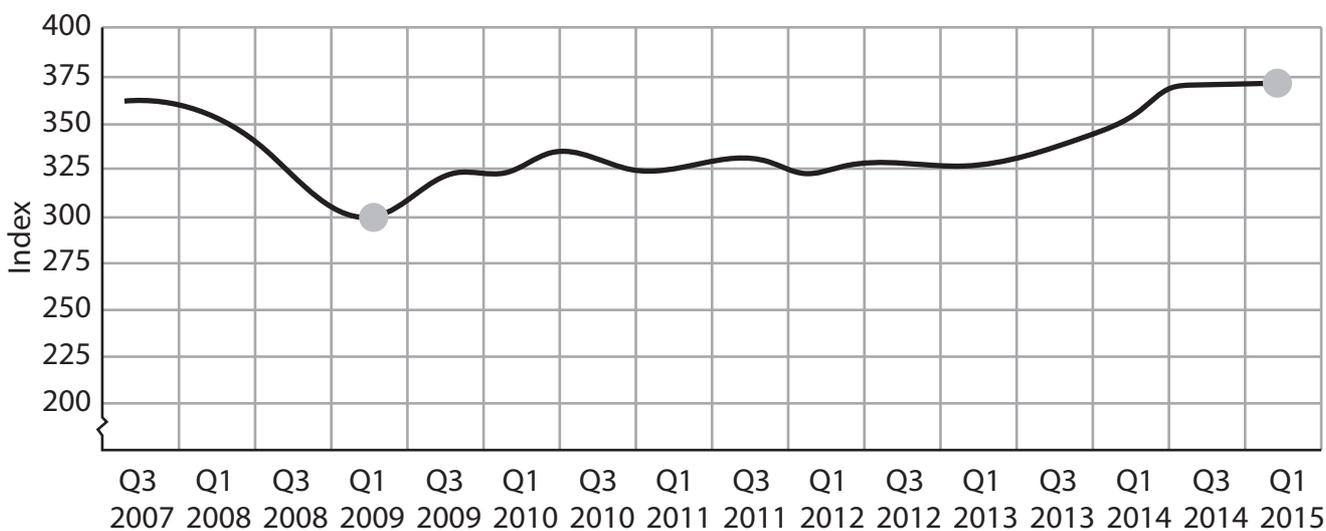
(Source: http://www.nationwide.co.uk/about/house-price-index/download-data#~)

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Extract A

Problems facing UK first time buyers

Over a third of aspiring first time buyers in the UK have given up hope of ever being able to save for a deposit to buy a property, new research has found. A deposit is the minimum amount that must be paid upfront when buying a property, which is a proportion of the price of the property.

The UK Government has a Help to Buy scheme designed to help people buy a home. The government subsidises the mortgage (loan) needed to buy a property, so buyers require a smaller amount saved as a deposit. Under this scheme, first time buyers need as little as a 5% deposit to qualify for a mortgage. This is due to end in the first few months of 2017. The research from mortgage insurer Genworth says this will mean a return to 20% deposits, which would see the average time needed to save for a deposit rise from three years to over 10 years.

"Trying to buy your first home in the current climate is like chasing a runaway train. Even with good salaries that could comfortably support a mortgage, thousands of aspiring first time buyers can only save modest sums, especially those who are already paying rent. This deposit trap is why many feel they are left with the all or nothing choice of borrowing from family or waving goodbye to ever owning a home," said Simon Crone, a vice president at Genworth.

"Help to Buy has significantly improved access to mortgages with deposits that are actually realistic to save. The numbers using the scheme may be modest, but it has made significant inroads in the short-term to boost access at the lower end of the property market," he pointed out.

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(Source: adapted from http://www.propertywire.com/news/europe/
uk-first-time-buyers-201409309641.html September 2014)

Extract B

Housing and flood defences

A radical new approach to housing and a £2.3 billion of investment in flood defences were announced as part of the UK Government's new National Infrastructure Plan 2014.

One key proposal is for the government to plan, build and sell homes. An initial programme on a government-owned former airfield near Cambridge will see the development of 10 000 homes. This approach will fast track the development by providing certainty and making new homes available more quickly.

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The government will make the initial investment but expects that later costs will be met through the sale of land and homes. It will also evaluate the feasibility and economic effects of rolling out this model on a wider scale, to support and accelerate housing supply.

The plan also commits to £2.3 billion of capital investment to over 1400 flood defence projects in a 6-year programme of investment. As a result, over 300 000 homes will be better protected and over £30 billion of economic damages prevented. Major projects that will benefit include £42 million for the Oxford Flood Alleviation Scheme, £80 million for the Humber Estuary and over £17 million for Tonbridge, Yalding and the surrounding communities.

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(Source: adapted from https://www.gov.uk/government/news/ambitious-plans-for-housing-flood-defence-
and-roads-set-out-in-national-infrastructure-plan-2014)

Turn over ▶

6 (a) With reference to Figure 1, explain **one** possible reason for the differences in price elasticity of supply of new housing between countries.

(5)

(b) With reference to Extract A, assess the likely impact of the Help to Buy scheme on the market for rented properties in the UK.

(10)

(c) Explain the likely impact on producer surplus of an increase in the demand for housing. Use a diagram to illustrate your answer.

(6)

(d) With reference to Figure 2, calculate the percentage change in house prices between the first quarter of 2009 and the first quarter of 2015. You are advised to show your working.

(4)

(e) With reference to Figures 1 and 2 and your own knowledge, discuss the functions of the price mechanism in allocating housing.

(15)

Answer EITHER

(f) Evaluate the likely microeconomic effects of government intervention in the UK housing market.

(20)

OR

(g) Evaluate the case for government provision of goods and services such as flood defence schemes or housing.

(20)

6 (a) With reference to Figure 1, explain **one** possible reason for the differences in price elasticity of supply of new housing between countries.

(5)

(b) With reference to Extract A, assess the likely impact of the Help to Buy scheme on the market for rented properties in the UK.

(10)

P 4 9 5 9 4 A 0 1 2 2 4

P 4 9 5 9 4 A 0 1 3 2 4

(c) Explain the likely impact on producer surplus of an increase in the demand for housing. Use a diagram to illustrate your answer.

(6)

P 4 9 5 9 4 A 0 1 4 2 4

(d) With reference to Figure 2, calculate the percentage change in house prices between the first quarter of 2009 and the first quarter of 2015. You are advised to show your working.

(4)

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(e) With reference to Figures 1 and 2 and your own knowledge, discuss the functions of the price mechanism in allocating housing.

(15)

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Answer EITHER

(f) Evaluate the likely microeconomic effects of government intervention in the UK housing market.

(20)

OR

(g) Evaluate the case for government provision of goods and services such as flood defence schemes or housing.

(20)

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

Chosen question number: **Question 6(f)** ☒   **Question 6(g)** ☒

Write your answer here:

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P 4 9 5 9 4 A 0 2 0 2 4

(Total for Question 6 = 60 marks)

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

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