Write your name here

Surname	Other names

Centre Number

Candidate Number

Edexcel GCE

Economics

Advanced Subsidiary

Unit 1: Competitive Markets – How They Work and Why They Fail

New Template Exemplar

Time: 1 hour 30 minutes

Paper Reference

6EC01/01

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 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.*

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 ▶

SECTION A

Answer ALL questions in this section.

You should spend 30 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**: The government should increase the national minimum wage to reduce inequality.

Statement 2: A significant increase in the national minimum wage above the market equilibrium wage is likely to cause unemployment.

Which of the following best describes the two statements above?

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.

(a) Answer

(1)

(b) Explanation

(3)

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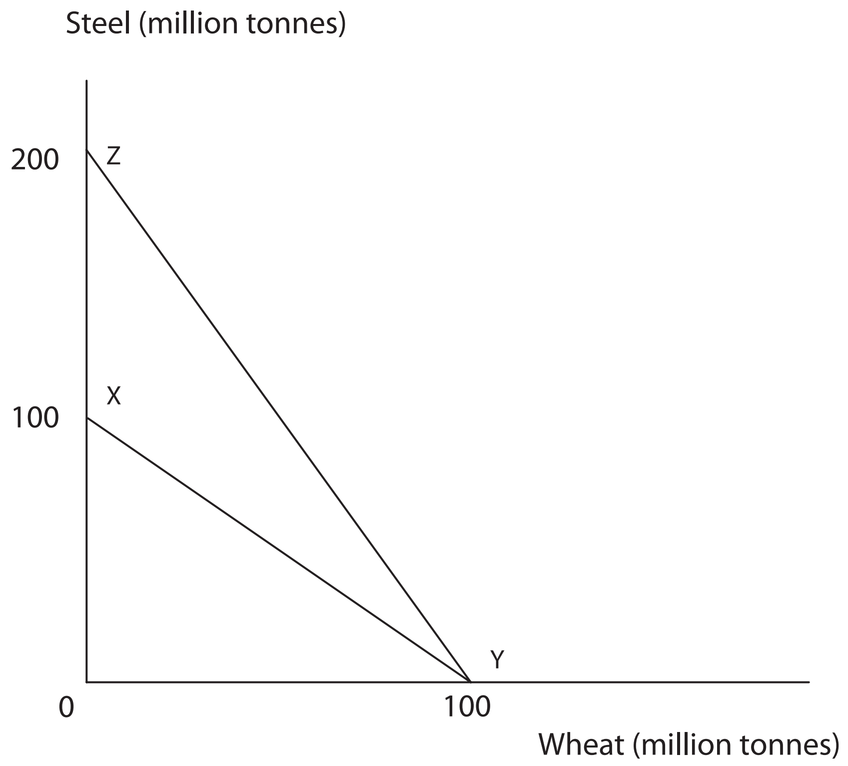
(Total for Question 1 = 4 marks)

2



The diagram refers to an economy producing two commodities, wheat and steel.
At first the economy has production possibilities as shown by the line XY.
The production possibility frontier then moves to ZY.

Which of the following does this change show?

A A decrease in production of steel.

B An increase in the opportunity cost of producing wheat.

C An increase in the demand for steel.

D Technological improvements in the wheat industry.

(a) Answer ☐ **(1)**

(b) Explanation **(3)**

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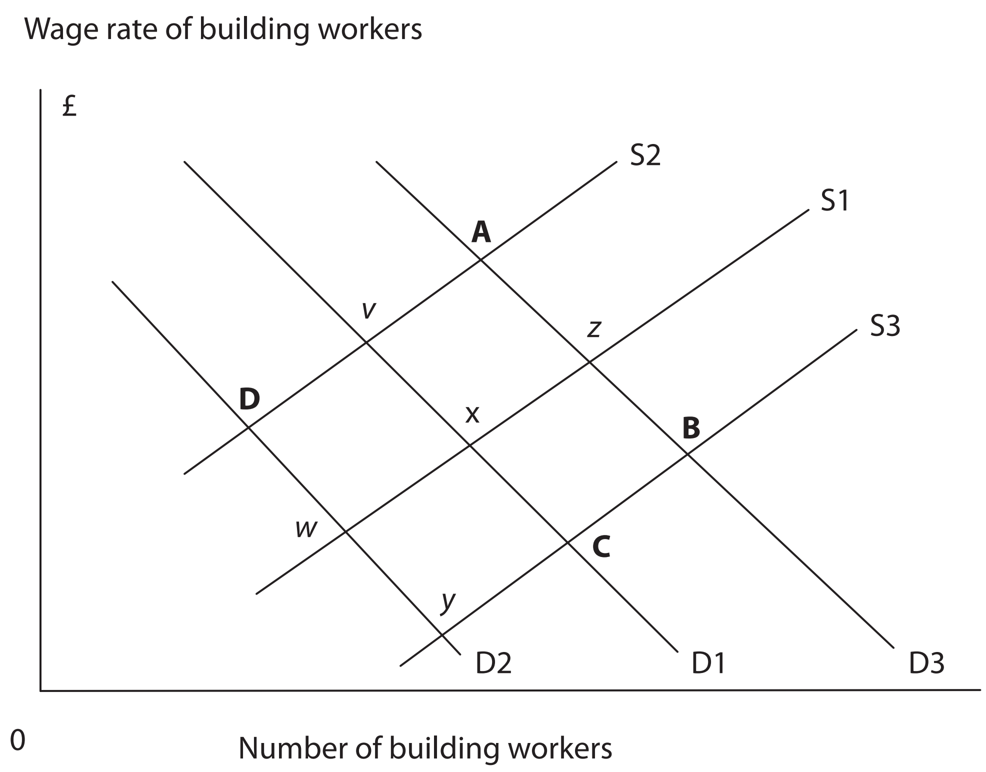
(Total for Question 2 = 4 marks)

3



The diagram shows the labour market for building workers in London where the initial equilibrium position is X. Preparation work for the London Olympic Games has caused a significant increase in the demand for housing, roads and sporting venues. At the same time there has been an increase in immigration of building workers from Eastern Europe.

What is likely to be the new equilibrium position **A**, **B**, **C** or **D**?

(a) Answer

(1)

(b) Explanation

(3)

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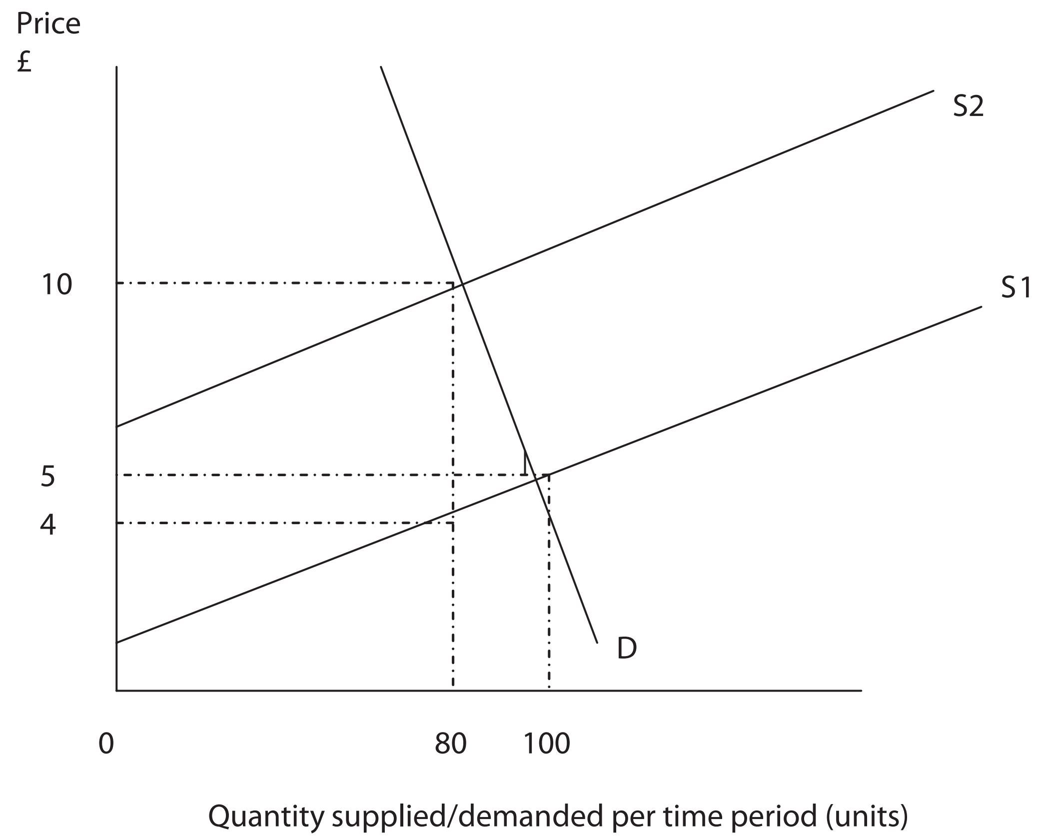
(Total for Question 3 = 4 marks)

4



The diagram shows how a tax imposed on a product causes its supply curve to shift from S1 to S2.

Which of the following best describes the market situation shown?

A It is a specific tax and its incidence falls mainly on producers not consumers.

B It is an *ad valorem* tax and its incidence falls mainly on consumers rather than producers.

C It is a specific tax and its incidence falls mainly on consumers not producers.

D It is an *ad valorem* tax and its incidence falls mainly on producers not consumers.

(a) Answer

(1)

(b) Explanation

(3)

(Total for Question 4 = 4 marks)

5 A London health club has 5,000 members. They each pay monthly fees of £80. The health club owner conducts market research and estimates that price elasticity of demand for its membership is – 0.5.

If the owner increases monthly fees by 10%, the change in total revenue is likely to be:

A + £22,000

B – £18,000

C – £22,000

D + £18,000

(a) Answer

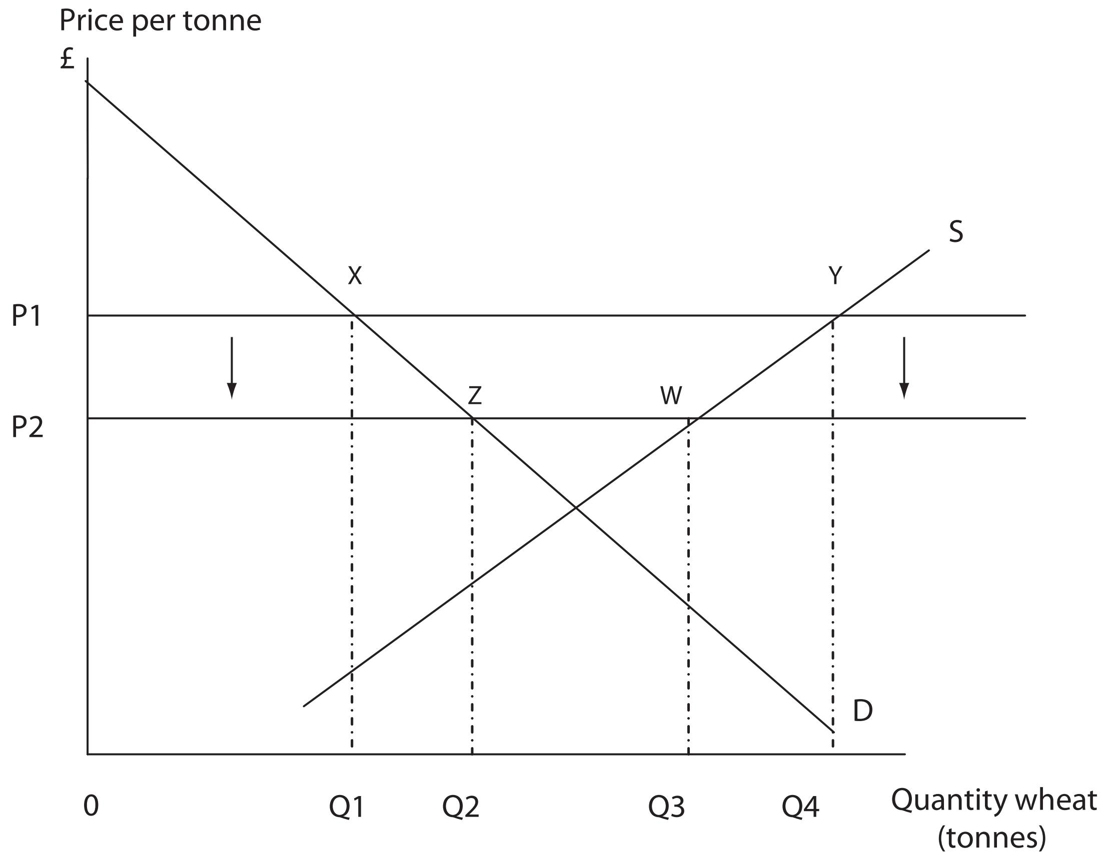
(1)

(b) Explanation

(3)

(Total for Question 5 = 4 marks)

6



The diagram shows the European Union wheat market. It operates a minimum price scheme. The government guarantees to purchase any surplus output at the minimum price. At first the minimum price is at 0P1 and the government purchases Q1Q4 wheat.

If the minimum price is reduced from 0P1 to 0P2 which of the following is correct?

A Consumer surplus falls.

B Excess demand for wheat falls.

C Government spending on the minimum price scheme for wheat falls.

D Output of wheat increases.

(a) Answer ☐

(1)

(b) Explanation

(3)

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(Total for Question 6 = 4 marks)

Turn over

7 National defence is not likely to be provided in a free market economy.
This may be because of:

A the existence of private security firms.

B the ability of firms to charge individuals for their consumption.

C improved international relations.

D the free rider problem.

(a) Answer

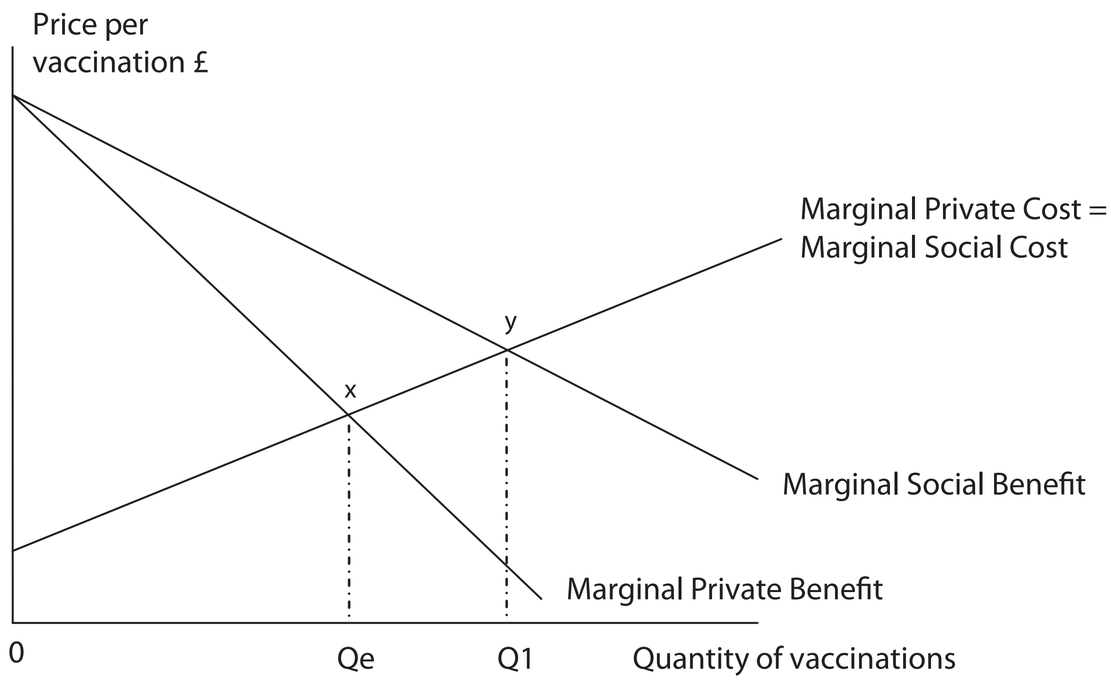
(1)

(b) Explanation

(3)

(Total for Question 7 = 4 marks)

8



The diagram shows the market for vaccinations. There are no external costs and no government intervention.

Which of the following is correct?

A The market equilibrium output exceeds the social optimum output.

B There is an under-consumption of vaccinations.

C There are no external benefits.

D At the market equilibrium output, marginal social cost exceeds marginal social benefit.

(a) Answer

(1)

(b) Explanation

(3)

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(Total for Question 8 = 4 marks)

TOTAL FOR SECTION A = 32 MARKS

SECTION B

Answer EITHER Question 9 OR Question 10.

Write your answers in the spaces provided.

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 ☒.

You are advised to spend 55 minutes on this question.

9 Road traffic and road pricing

Figure 1: UK Road traffic by vehicle type (billion vehicle kilometres)

Year	Cars, taxis & vans	Buses & coaches	Lorries	Total
2000	429.1	5.2	28.2	462.5
2001	436.5	5.2	28.1	469.8
2002	447.9	5.2	28.3	481.4
2003	451.0	5.4	28.5	484.9
2004	458.9	5.2	29.4	493.5
2005	459.8	5.2	29.0	494.0

(Source: Department for Transport, National Road Traffic Survey 2006)

Extract 1

The cost of driving is going to become much higher as the Government is set to increase motoring taxes over the next decade. Each litre of petrol already includes a fuel tax and value added tax totalling 67 per cent of its price.

The top rate of vehicle excise duty (vehicle tax disc) is to be increased further for high polluting vehicles to encourage drivers to switch to fuel-efficient cars. In addition the Mayor of London intends to increase the daily congestion charge to £25 for such vehicles. These measures appear to be working as the gas-guzzling large '4×4' drive vehicles have suffered a major decline in sales.

Road pricing is set to be applied to Britain's motorways and main roads. A pilot road charging scheme will start in 2010. According to David Miliband, the Environment Secretary, road pricing should reflect the full social cost of journeys and encourage motorists to switch to public transport.

Road space is a scarce resource and motorists should directly pay according to the time of day and amount of congestion caused. It should reduce the number of non-essential journeys and increase the flow of traffic. However, concerns have been raised over the cost of introducing road pricing and its impact on routes which have no charge. Furthermore, low income motorists will be hit the hardest and road pricing may reduce labour mobility.

(Source: adapted from 'Brown set to heed calls for wide-ranging green taxes' by Greg Hurst, *The Times*, 30th October 2006)

If you answer Question 9 put a cross in this box ☒ .

(a) (i) With reference to Figure 1, calculate the percentage increase in distance travelled by cars, taxis and vans between 2000 and 2005.

(2)

(ii) Assess the significance of **three** possible causes of the increase in distance travelled by cars, taxis and vans.

(8)

(b) Giving examples, distinguish between the private costs and external costs of motoring.

(6)

*(c) Examine the case for and against an increase in government subsidies to bus and coach companies. Illustrate your answer with an appropriate subsidy diagram.

(12)

(d) (i) Examine the likely impact of an increase in vehicle excise duty on road traffic growth (*Extract 1, line 4*).

(8)

*(ii) To what extent are the benefits likely to exceed the costs of a national road pricing scheme?

(12)

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(8)

First cause ....

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Second cause ....

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Third cause ....

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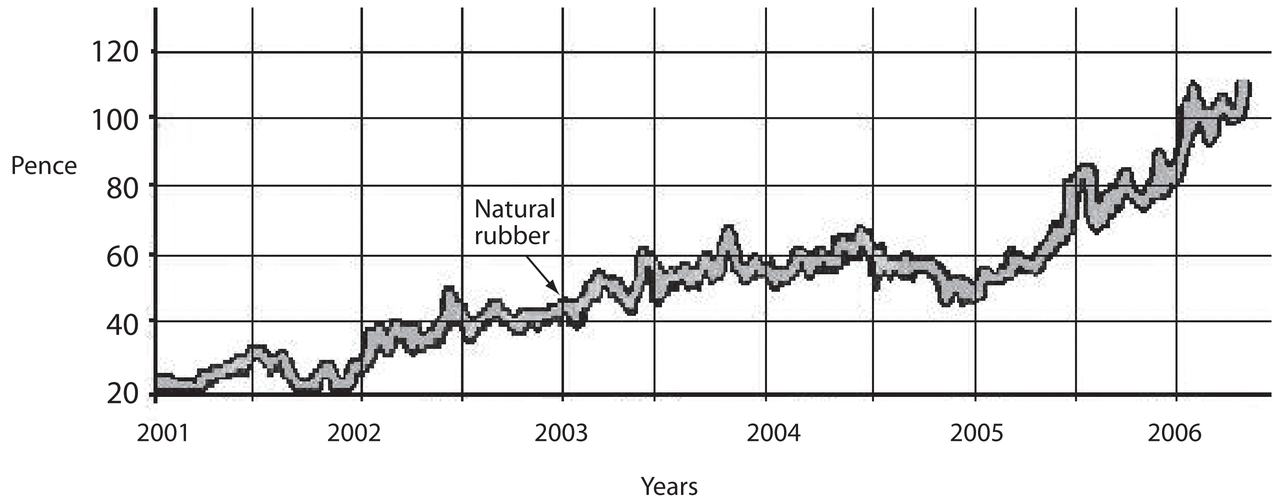
(12)

(Total for Question 9 = 48 marks)

10 The price of rubber

Figure 2: Natural rubber price



Extract 2

The price of natural rubber has fluctuated greatly over the past decade. Yesterday it reached £1.18 per kilo, a 22-year high in the market, responding to a combination of demand and supply factors.

China's economy is consuming vast quantities of natural rubber as living standards and the demand for motor vehicles rise. Natural rubber and synthetic rubber are in direct competition with each other: last year's production of natural rubber was 8.7 million tonnes compared to 11.9 million tonnes of synthetic rubber. The cost of producing synthetic rubber has also risen significantly due to the high oil price.

Matters have been made worse by poor weather in Thailand, Malaysia and Indonesia, which between them produce 60% of the world's natural rubber. The shortfall in production of natural rubber is likely to continue in the foreseeable future, says the International Rubber Study Group, which predicts a deficit of 820,000 tonnes by 2010, up from 250,000 tonnes this year. This has led to speculative buying of natural rubber.

Discussions on stabilising natural rubber prices through a buffer stock scheme have taken place. However, little progress has been made since the failure of the International Rubber Organisation seven years ago due to the growth in competition from synthetic rubber. Buffer stock schemes rely on the participation of all major producers as well as sufficient funds to finance surplus production. They also require spare stocks in times of shortage. However, with rising prices there is little incentive to enter into such agreements.

(Source: adapted from 'Rubber price stretched to a 22-year high' by Carl Mortished, *The Times*, 12th May 2006)

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

(a) (i) The price of natural rubber 'reached a 22-year high in the market' (*Extract 2, line 2*).

With reference to the data and using a supply and demand diagram, explain why this happened.

(7)

(ii) Comment on the likely cross elasticity of demand between synthetic rubber and natural rubber.

(4)

(b) What can you learn from the passage about the price elasticity of supply for natural rubber? Justify your answer.

(5)

(c) Assess the likely impact of the rise in price of natural rubber for consumers of natural rubber such as car manufacturers.

(10)

*(d) (i) Evaluate **two** likely consequences of fluctuating prices on producers of natural rubber.

(10)

*(ii) Assess the likely success of a buffer stock scheme for natural rubber. (Use an appropriate diagram in your answer.)

(12)

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(12)

(Total for Question 10 = 48 marks)

TOTAL FOR SECTION B = 48 MARKS
TOTAL FOR PAPER = 80 MARKS