Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel Level 3 GCE

Tuesday 12 May 2026

Morning (Time: 1 hour 30 minutes)

Paper reference **8EC0/01**

Economics A

Advanced Subsidiary

PAPER 1: Introduction to Markets and Market Failure

You must have:
Source Booklet (enclosed)

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.*
- 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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P 7 9 8 1 0 A 0 1 2 4

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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 The United States operates an economic system known as a 'mixed economy'. The proportion of government spending relative to GDP was 36.8% in 2022.

(a) With reference to the information provided, explain **one** role of the state within a mixed economy.

(3)

(b) Which **one** of the following is an advantage of a free market economy?

(1)

☒ **A** All goods are produced at the social optimum position

☒ **B** Maximisation of social welfare through central planning

☒ **C** Signalling allows markets to allocate resources efficiently

☒ **D** Under-provision of public goods

(Total for Question 1 = 4 marks)

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2 Olive oil is seen as a necessity in Italy. Global production of olive oil is forecast to fall to 2.4 million tonnes, as a result of extreme weather. This is less than last year's harvest and well short of global demand of about 3 million tonnes.

(a) Which **one** of the following is an effect of rationing in the price mechanism?

(1)

- ☒ **A** To remove a shortage therefore prices fall
- ☒ **B** To remove a shortage therefore prices rise
- ☒ **C** To remove a surplus therefore prices fall
- ☒ **D** To remove a surplus therefore prices rise

(b) With reference to the information provided, explain whether the demand for olive oil within Italy is likely to be **price elastic** or **price inelastic**.

(3)

(Total for Question 2 = 4 marks)

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3 The UK government has announced that it will increase subsidies for offshore wind energy production by 66% to develop its renewable energy production capacity, aiming to increase its production from the current 14 gigawatts to 50 gigawatts in 2030.

(Source: adapted from https://www.ft.com/content/5635dad9-ce2b-4b1d-a14b-2c6bc927a187)

(a) Define the term 'subsidies'.

(1)

.....

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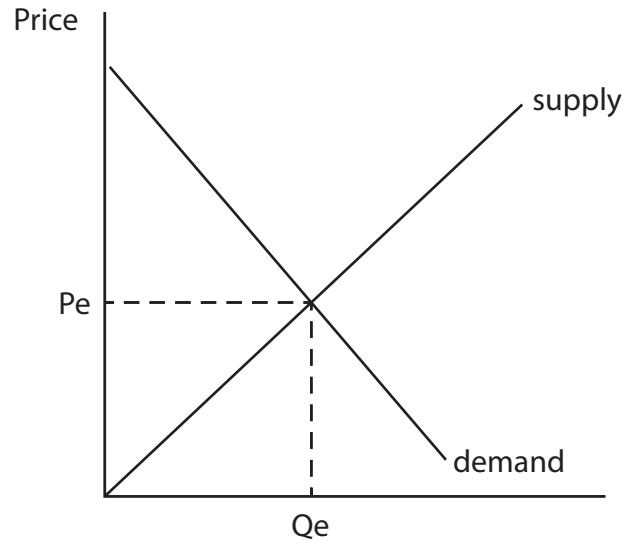
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(b) Annotate the diagram below to show the new equilibrium price and quantity after the introduction of a subsidy on offshore energy production.

(2)



Quantity of offshore energy production

(c) Which **one** of the following is a normative statement?

(1)

- ☒ **A** An increase in price will follow
- ☒ **B** Consumers ought to switch to renewable energy providers
- ☒ **C** Producers will see a rise in revenue
- ☒ **D** Subsidies have an opportunity cost for government spending

(Total for Question 3 = 4 marks)

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4 In September 2023, the president of the Philippines introduced a complication into the lives of rice farmers, a maximum price of 41 pesos (£0.57) per kilogramme of rice.

(a) With reference to the data above, which **one** of the following is the ratio of the peso to the pound?

(1)

- ☒ **A** 0.719
- ☒ **B** 41.8
- ☒ **C** 58.2
- ☒ **D** 71.9

(b) Explain how a maximum price may lead to a shortage of rice in the Philippines.

(3)

(Total for Question 4 = 4 marks)

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5 In 2024, incomes were rising more quickly than spending on luxuries. Global consumers were likely to buy smaller, more affordable luxuries rather than 'big ticket' items such as new cars. Some economists refer to this as the 'lipstick index', where consumers buy more relatively affordable purchases, such as small cosmetics and speciality teas.

(a) With reference to the information provided, explain the term '**income inelastic demand**'.

(3)

(b) Tea is estimated to have a **price** elasticity of demand of –0.14

Which **one** of the following is a description of the **price** elasticity of demand for tea?

(1)

- ☒ **A** Perfectly elastic
- ☒ **B** Relatively price elastic
- ☒ **C** Relatively price inelastic
- ☒ **D** Unitary elastic

(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 Figure 1 and Extracts (A and B) in the Source Booklet before answering Question 6.

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

Write your answers in the spaces provided.

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

6 (a) With reference to Figure 1, calculate the percentage change in the price of lithium carbonate between 2022 and 2023.

(4)

(b) With reference to Extract A, explain how the market for lithium illustrates the 'economic problem'.

(5)

(c) With reference to Extract A, explain **two** factors that determine the price elasticity of supply of lithium.

(6)

(d) With reference to Figure 1 and Extract A, discuss **two** reasons why the price of lithium fell between 2022 and 2023. Draw at least **one** supply and demand diagram to support your answer.

(15)

(e) With reference to Extract B, assess whether consumers act rationally in response to the increased cost of driving in cities.

(10)

EITHER

(f) Evaluate the use of taxation **and** regulation to reduce vehicle usage in cities.

(20)

OR

(g) Evaluate the possible methods of government intervention to reduce market failure in the supply of lithium for electric batteries.

(20)

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(4)

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(b) With reference to Extract A, explain how the market for lithium illustrates the 'economic problem'.

(5)

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(15)

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(e) With reference to Extract B, assess whether consumers act rationally in response to the increased cost of driving in cities.

(10)

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EITHER

(f) Evaluate the use of taxation **and** regulation to reduce vehicle usage in cities.

(20)

OR

(g) Evaluate the possible methods of government intervention to reduce market failure in the supply of lithium for electric batteries.

(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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(Total for Question 6 = 60 marks)

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

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Pearson Edexcel Level 3 GCE

Tuesday 12 May 2026

Morning (Time: 1 hour 30 minutes)

Paper reference **8EC0/01**

Economics A

Advanced Subsidiary

PAPER 1: Introduction to Markets and Market Failure

Source Booklet

Do not return this Booklet with the question paper.

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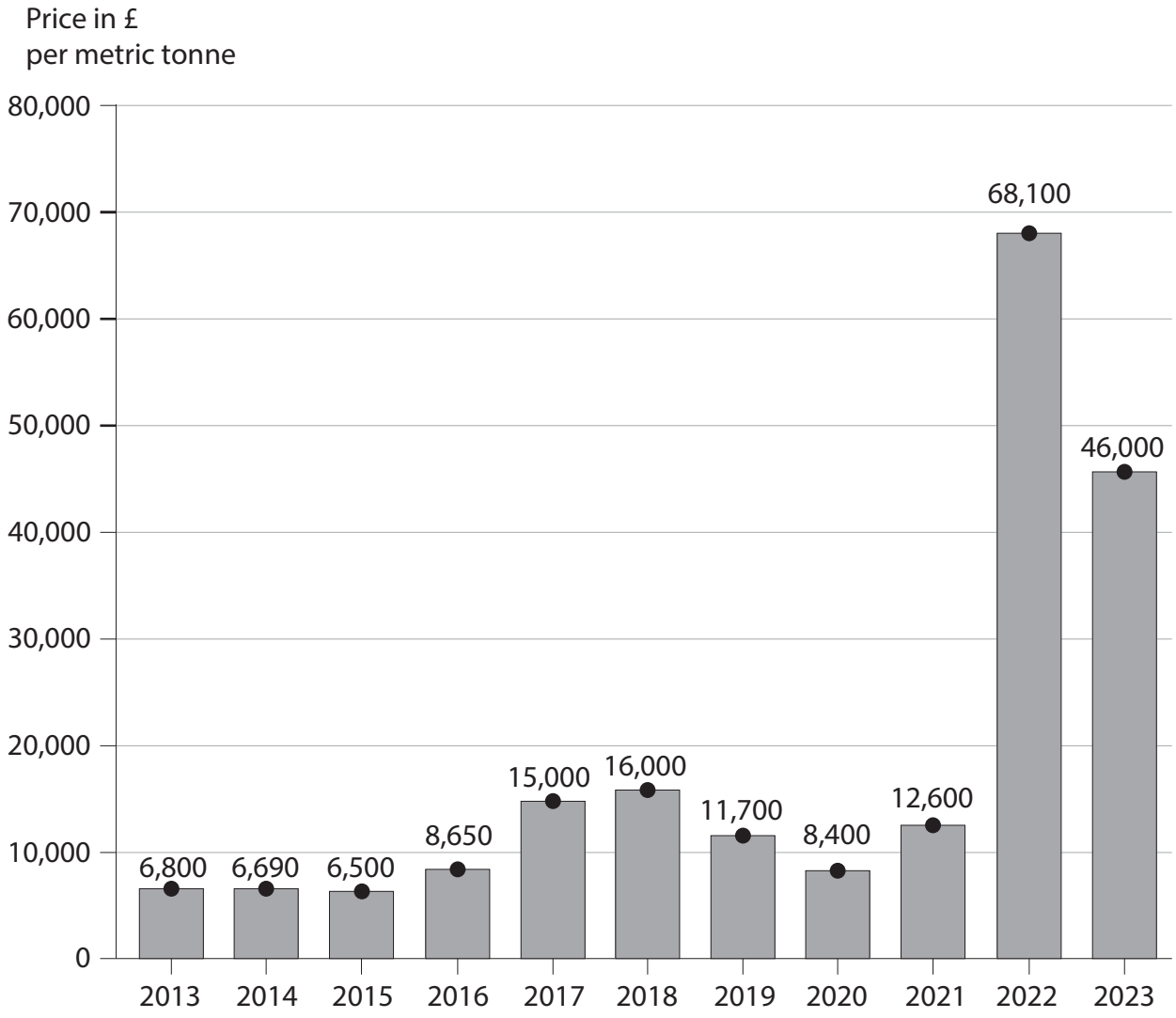
Sources for use with SECTION B

Read the following Figure (1) and Extracts (A–B) before answering Question 6.

Market failure

Figure 1: Lithium price (£) 2013–2023

Average lithium price from 2013 to 2023
(in £ per metric tonne)



(Source: adapted from https://www.statista.com/statistics/606350/battery-grade-lithium-carbonate-price/)

Extract A

The market for lithium

Lithium is the key metal used in the manufacture of batteries for electric vehicles, supporting moves towards renewable energy across the world. The most recent, new large-scale lithium mine in California has the potential to meet the USA's needs for decades. Over time, the demand for lithium will only increase further as petrol and diesel engines are being phased out globally, leading to an expected lithium shortage by 2025. The new mine is one of many new mining proposals in a 'global rush' to find new sources of lithium. The process to plan and construct a lithium mine is difficult and can take up to five years.

The new mine has drawn protests from members of a native American tribe, farmers and environmental groups. It is expected to use billions of gallons of precious ground water, potentially contaminating some of it for 300 years, while leaving behind large amounts of physical waste. The free market supply of lithium does not take into account these and many other environmental costs.

The price of lithium fell back in 2023, after excessive levels of supply hit the market. Rather than a shortage, there was a surplus of lithium in that year, of 200 000 tonnes, 17% of global demand. This is partly due to the slowdown in electric vehicle demand from China.

(Source: adapted from https://www.nytimes.com/2021/05/06/business/lithium-mining-race.html)

Extract B

Driving in cities and its cost

Beijing resident Zhang Yong considers himself lucky. In 2011, the Chinese capital introduced a lottery-style system for the allocation of licence plates that allows winners the right to buy a car. The aim was to curb the purchase of new vehicles and ease traffic in the congested city. Congestion costs hundreds of hours per person each year for the world's worst affected cities. Measures to cut road congestion will therefore grow.

By contrast, congestion pricing is well-established in many leading cities including London and Paris. The assumption behind congestion pricing is that roads are under-priced, and charging drivers prompts them to make fewer trips or take public transport. By reducing traffic and delays, it creates more favourable road conditions that, in turn, attract back drivers, so from this perspective, congestion is essentially self-regulating.

Average speeds in central London at peak times are still however only 7 miles per hour, causing £4 billion in costs to the economy and increasing travel times for individual workers. 'In a prosperous city like London with a lot of business users you would need a very high charge to get a long-term reduction in congestion' said one analyst. It is estimated that a 10% increase in congestion charges would result in a fall in vehicle usage of just 0.4%, therefore success in reducing congestion would be limited. Many cities around the world are looking at ways to limit congestion, by charging higher prices at certain times of the day.

Also, in London, regulation 'clean air zones' schemes such as the Ultra Low Emission Zones (ULEZ) are designed to reduce harmful air pollution levels, cutting the number of older, more polluting vehicles. Car usage, as a result of the charges, has fallen 10% whereas cycle journeys for deliveries and commuting have increased by 67%.

Another regulatory option has been introduced in Paris, with parking charges for the largest consumer vehicles. This is a move aimed at curbing the use of "bulky, polluting" large vehicles within the French capital and the new parking fees will rise to €18 (£15) an hour.

(Source: adapted from https://www.ft.com/content/77e5139a-1c3d-11ea-81f0-0c253907d3e0)