

A-level Economics 7136/3

Paper 3 Economic principles and issues

Specimen 2015

Morning

2 hours

Materials

For this paper you must have:

- the source booklet
- a calculator.

Instructions

- Answer **all** questions.
- Use a black ball-point pen. Pencil should only be used for drawing.
- You will need to refer to the source booklet provided to answer **Section B**.
- Do all rough work in this answer book. Cross through any work you do not want to be marked.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- No deductions will be made for wrong answers.

Please write clearly, in block capitals, to allow character computer recognition.

Centre number

Candidate number

Surname

Forename(s)

Candidate signature _____


Section A


Answer **all** questions in this section

Only **one** answer per question is allowed.

For each answer completely fill in the lozenge alongside the appropriate answer.

CORRECT METHOD WRONG METHODS

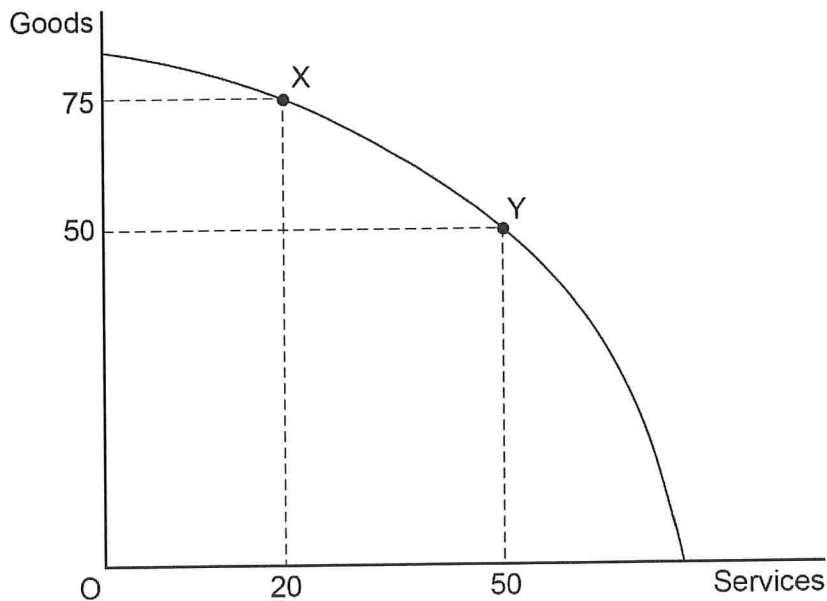
If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

0 1

The diagram below is a production possibility curve showing the various combinations of goods and services that an economy can produce.

Which one of the following can be deduced from the diagram?

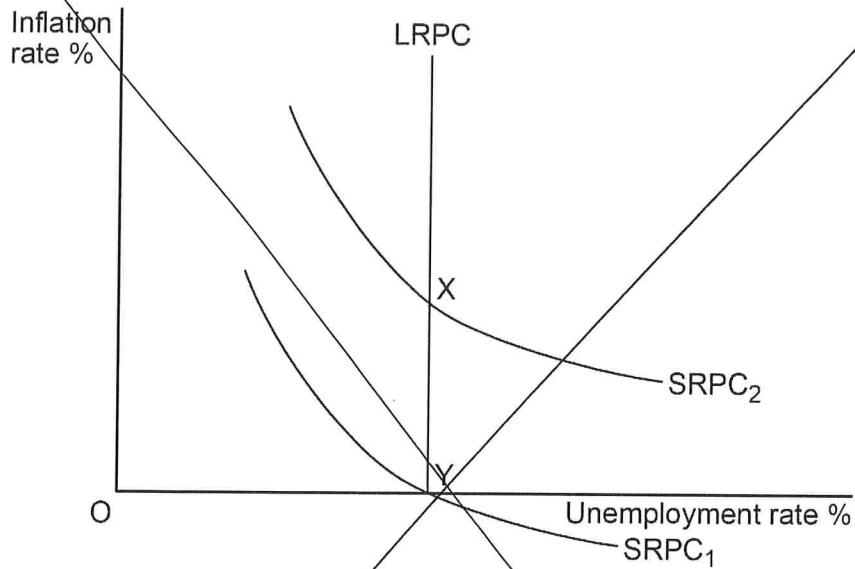


- A Point Y is allocatively efficient but Point X allocatively inefficient
- B Point Y is productively efficient but Point X productively inefficient
- C The opportunity cost of producing more goods, in terms of services, is greater at Point Y than at Point X
- D The opportunity cost of producing more goods, in terms of services, is lower at Point Y than at Point X

[1 mark]

0 2

In the diagram below, SRPC₁ and SRPC₂ represent short-run Phillips curves and LRPC represents the long-run Phillips curve.



Which one of the following would explain a movement from point X to Y?

- A A fall in taxation
- B An increase in government expenditure
- C A cut in real interest rates
- D Reduced inflationary expectations

[1 mark]

Turn over for the next question

The table below shows the Gini coefficient of income for two countries.

Country	Gini coefficient
X	0.4
Y	0.6

From the table it can be inferred that

- A the distribution of income is more equal in country X.
- B the distribution of wealth is more equal in country Y.
- C 40% of the population in country X have more than the median income.
- D 60% of the population in country Y have more than the mean income.

[1 mark]

If the value of the marginal propensity to consume is 0.8, what is the total increase to real national income, due to the multiplier process if the initial injection is £25m?

- A £31.25m
- B £62.5m
- C £125m
- D £250m

[1 mark]

A rational consumer will always attempt to

- A minimise their marginal utility.
- B consume all of their income.
- C maximise their total utility.
- D save so they are prepared for unexpected events.

[1 mark]

116

The price elasticity of demand for labour measures the responsiveness of

05

- A the supply of labour to a change in the demand for labour.
- B the wage rate to a change in the demand for labour.
- C the demand for labour to a change in the supply of labour.
- D demand for labour to a change in the wage rate.

[1 mark]

07

Which one of the following is generally not used to establish the quality of life in a country?

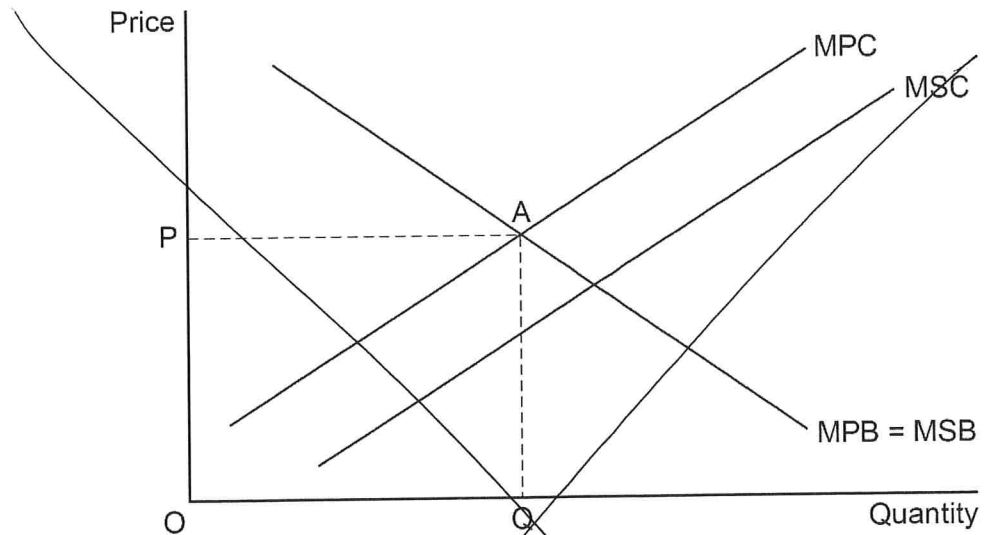
- A GDP per capita figures
- B Balance of payments figures
- C Life expectancy
- D Literacy rates

[1 mark]

Turn over for the next question

0 8

The diagram below shows the marginal private benefit and the marginal social benefit (MPB and MSB) curves and the marginal private cost and marginal social cost (MPC and MSC) curves for good X.



Assuming the free market equilibrium is at point A, what action taken by the government is most likely to lead to output being produced at the socially optimal level?

- A Increase in unit taxes on good X
- B Subsidies to the producers of good X
- C Regulation to reduce consumption of good X
- D Issue of permits designed to reduce output of good X

[1 mark]

The data below shows the data for the balance of payments for a country in £bn.

06

Year	Balance of trade in goods	Balance of trade in services	Primary income balance	Secondary income balance
1	-80	+50	+5	-10
2	-90	+40	+10	-15

Between Year 1 and Year 2 the

- A surplus on the Current Account fell by £20bn.
- B deficit on the Current Account fell by £20bn.
- C deficit on the Current Account rose by £20bn.
- D surplus on the Current Account rose by £20bn.

[1 mark]

Inferior goods always have a

- A positive price elasticity of demand.
- B negative income elasticity of demand.
- C positive cross elasticity of demand.
- D negative price elasticity of supply.

[1 mark]

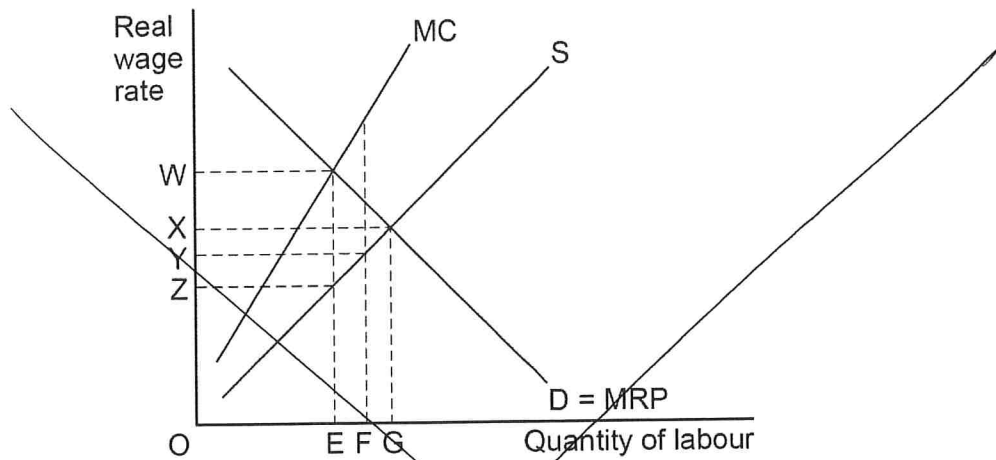
Which one of the following is the most likely consequence of a central bank engaging in quantitative easing?

- | | Bond Prices | Long-term interest rates | |
|---|-------------|--------------------------|-----------------------|
| A | Rising | Rising | <input type="radio"/> |
| B | Falling | Rising | <input type="radio"/> |
| C | Rising | Falling | <input type="radio"/> |
| D | Falling | Falling | <input type="radio"/> |

[1 mark]

1 2

The diagram below illustrates a monopsony labour market following the introduction of a trade union.



The outcome in terms of wages and employment following the introduction of the trade union is most likely to be

- A a reduction in wages from W to Y and an increase in employment from E to F.
- B an increase in wages from Z to Y and an increase in employment from E to F.
- C a reduction in wages from W to X and an increase in employment from E to G.
- D an increase in wages from X to W and a reduction in employment from G to E.

[1 mark]

A firm produces 10 units of output per week and, at this level of output, its costs are as follows:

08

Marginal cost	Average variable cost	Average total cost
£50	£35	£40

The firm's total fixed costs are

- A £5.
- B £10.
- C £15.
- D £50.

[1 mark]

14 The table below shows details for a weighted price index which contains only two products, X and Y.

Product	Year 1 price (£)	Year 2 price (£)	Weight
X	10	12	2
Y	20	18	1

If Year 1 is the base year, what is the value of the weighted index in Year 2?

- A 100
B 105
C 110
D 120

[1 mark]

09 Which one of the following is the most likely microeconomic consequence of a fall in tax on income?

- A A decrease in demand for labour
B An increase in the demand for exports
C An increase in supply of labour
D A decrease in demand for imports

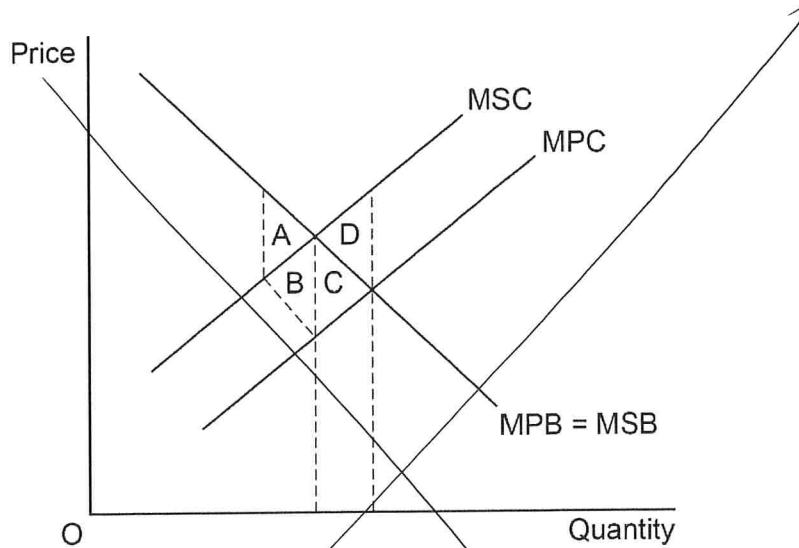
[1 mark]

10 Behavioural economic theory suggests that when consumers are faced with complex financial decisions, such as choosing between pension schemes, social welfare is likely to increase if consumers are

- A presented with all the options that are available.
B presented with a limited set of pre-selected options.
C provided with as much information as possible about each available option.
D not given any choice.

[1 mark]

The diagram below shows the marginal private benefit and marginal social benefit (MPB and MSB) curves and marginal private cost and marginal social cost (MPC and MSC) curves for Good X.



Which triangle, **A**, **B**, **C** or **D**, represents the welfare loss if output is at the private optimum rather than the social optimum?

- A
- B
- C
- D

[1 mark]

Profit maximising monopolies are said to be allocatively inefficient due to

11

- A their marginal revenue being greater than their marginal cost.
- B their average revenue being greater than their average cost.
- C their average revenue being greater than their marginal cost.
- D their marginal revenue being equal to their marginal cost.

[1 mark]

Workers are seeking employment but cannot find employment because of widespread low economic activity. Which type of unemployment are these workers experiencing?

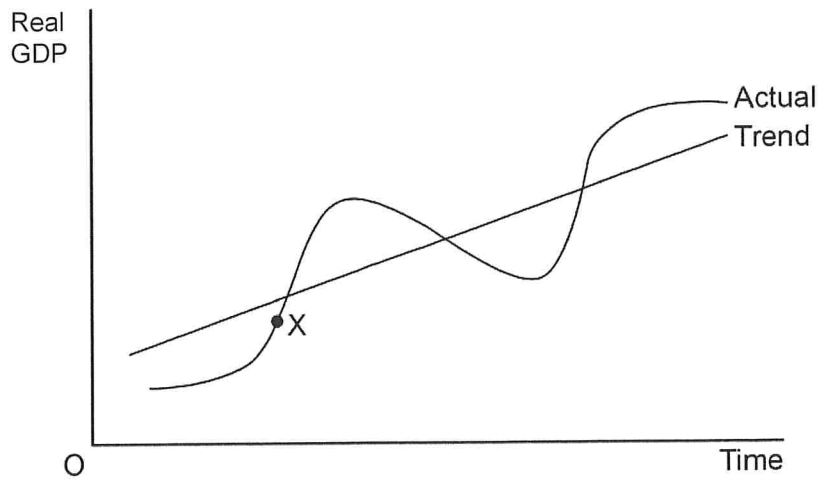
12

- A Cyclical
- B Structural
- C Frictional
- D Voluntary

[1 mark]

Turn over for the next question

The following diagram illustrates the concept of the economic cycle.



The phase of the cycle at point X would be best described as which one of the following?

- A Recession
- B Boom
- C Slump
- D Recovery

[1 mark]

When a firm increases the price of its product from £50 to £55, the total revenue generated increases from £10,000 to £11,000. Over this price range, the price elasticity of demand for the product is

- 14
- A elastic.
 - B unit elastic.
 - C inelastic.
 - D perfectly inelastic.

[1 mark]

2 2

Which one of the following combinations is most likely to increase the risk of bank failures?

	Liquidity ratios	Capital ratios	
A	Increasing	Falling	<input type="radio"/>
B	Falling	Falling	<input type="radio"/>
C	Increasing	Increasing	<input type="radio"/>
D	Falling	Increasing	<input type="radio"/>

[1 mark]

2 3

15

Economy X has a nominal GDP of \$200bn and Economy Y has a nominal GDP of \$400bn. If Economy X experiences a growth in nominal GDP of 10% and Economy Y at 0%, assuming these annual growth rates remain constant, how long will it take before the nominal GDP of Economy X is larger than for Economy Y?

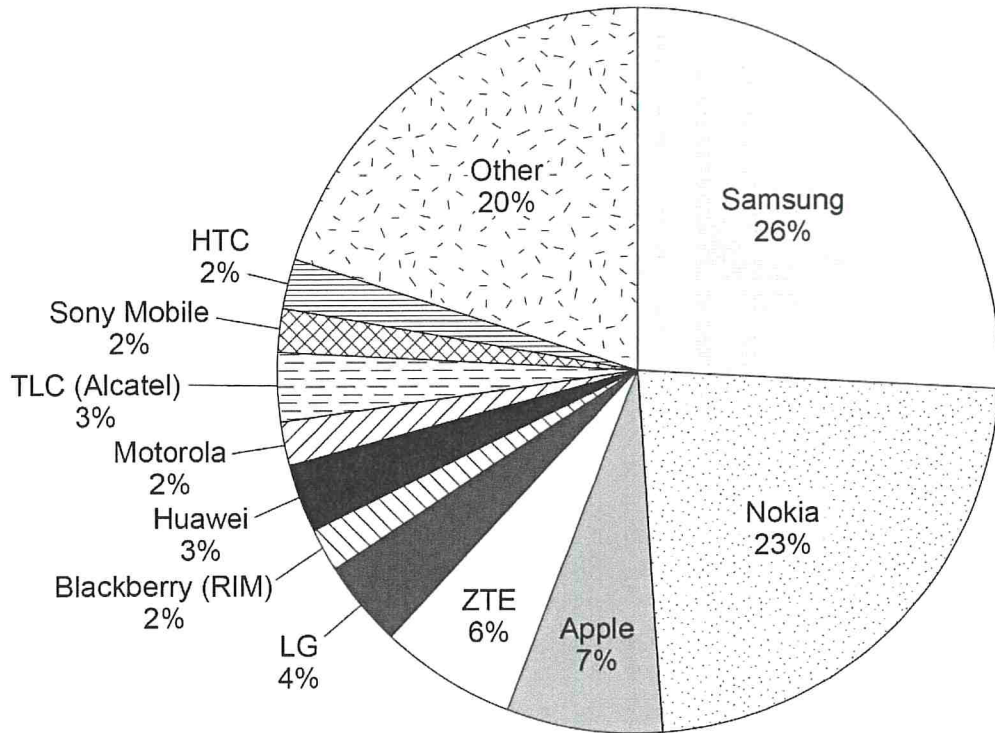
- A Less than 10 years
- B 10 years
- C More than 10 years
- D Depends on the two economies' inflation rates

[1 mark]

Turn over for the next question

The table below shows the market share of mobile phone handset producers in 2012.

16



From the data, what is the 5 firm concentration ratio?

- A 62%
- B 66%
- C 69%
- D 82%

[1 mark]

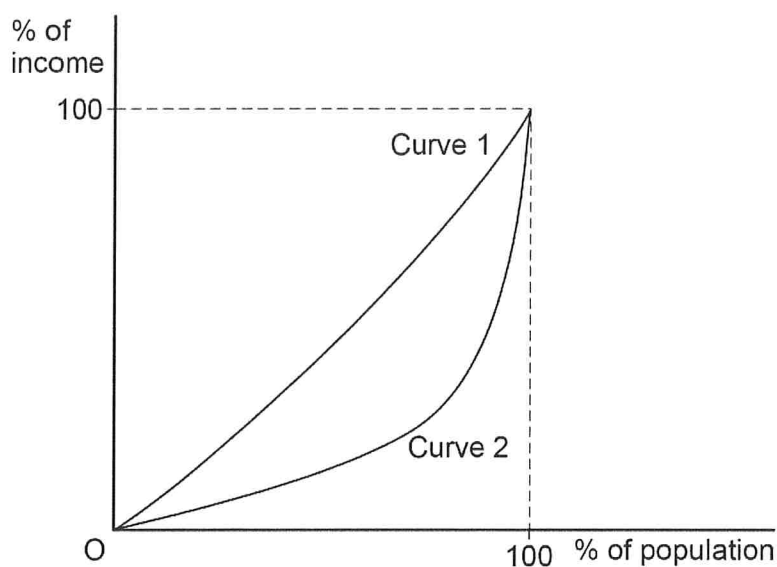
Which one of the following statements about fiscal policy is **not** true?

17

- A It can be used to change the behaviour of economic agents.
- B It is a tool of economic management.
- C It does not have any effect on interest rates.
- D It is used to redistribute income and wealth.

[1 mark]

The two Lorenz curves below represent the distribution of disposable income for the same economy in two time periods.



Over time the shift from the Curve 1 to Curve 2 curve is most likely to have been caused by which one of the following?

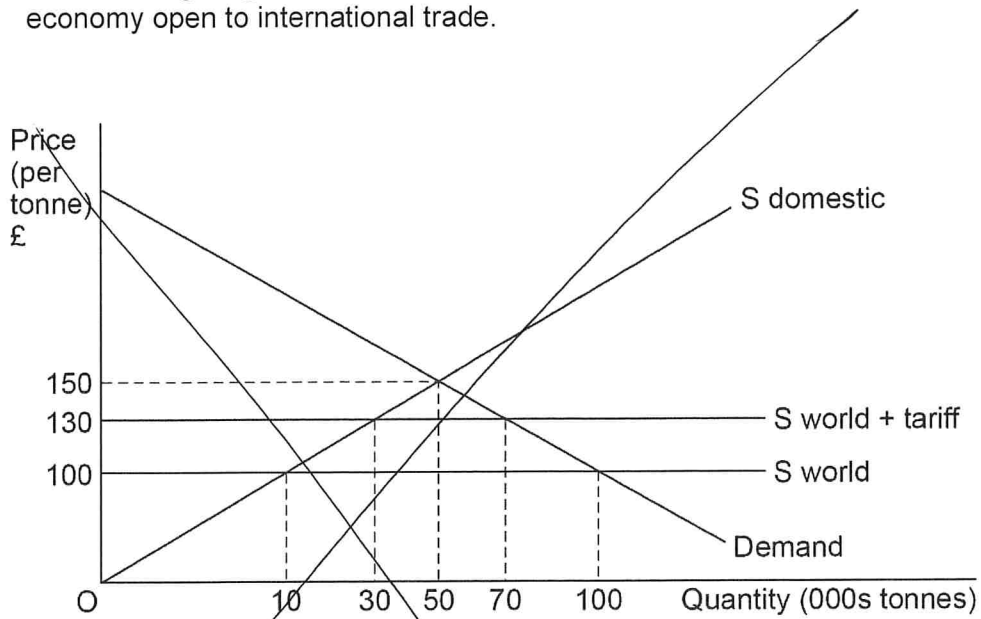
- A Reduced welfare expenditure and reduced taxes on higher earners
- B Increased welfare expenditure and increased taxes on higher earners
- C Increased tax allowances for low earners and increased welfare expenditure
- D Lower taxes on expenditure with reduced taxes on low earners

[1 mark]

Turn over for the next question

27

The following diagram illustrates the demand and supply of a commodity in an economy open to international trade.



After the imposition of a tariff, what is the total value of the revenue received by the domestic producers?

- A £3,900,000
- B £9,000,000
- C £5,200,000
- D £9,100,000

[1 mark]

19

In an industry, the minimum efficient scale of production is low in comparison to the size of the market for the product. It is likely that this industry would be characterised by

- A a high concentration ratio.
- B a few firms with monopoly power.
- C increasing returns to scale at high levels of output.
- D lots of small firms competing with each other.

[1 mark]

29

A firm hires 20 workers at £10 per hour but in order to recruit another worker has to pay £11 per hour. All workers must now be paid the new wage rate. What is the marginal cost of the 21st worker?

A £10

B £11

C £21

D £31

[1 mark]

20

Which one of the following is an injection into the circular flow of income of the UK?

A UK households buying goods from UK firms out of their current income

B The purchase of raw materials by UK firms from abroad

C UK firms retaining some of their income as profit

D The government spending money on old age pensions

[1 mark]

**QUESTION 30 IS THE LAST
QUESTION IN SECTION A**

Turn to page 18 for Section B

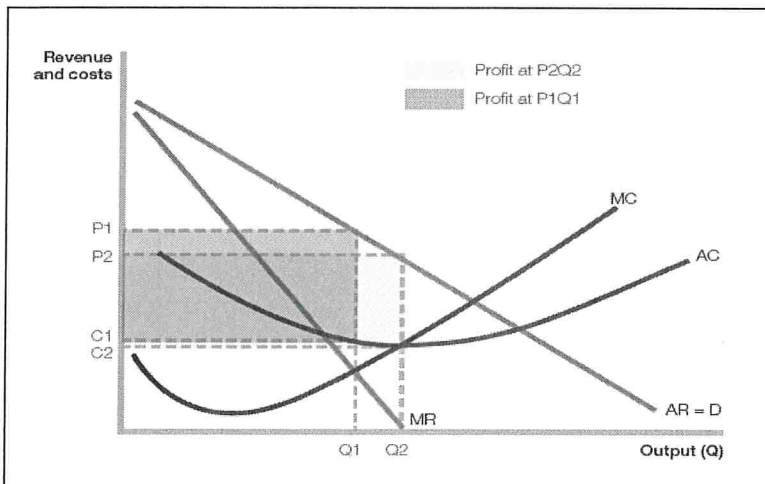
21 Which of the following statements regarding economic efficiency is correct?

- A Productive efficiency occurs when the price of a good is equal to its marginal cost of production.
- B An economy is productively efficient when it is producing at a point on its production possibility curve
- C A monopoly firm is always allocatively efficient
- D Allocative efficiency occurs when marginal revenue equals marginal cost

22 Over time, a market becomes less competitive and eventually becomes a monopoly. As a result, it is likely that?

- A Consumer surplus will be reduced by the amount of the deadweight loss
- B Producer surplus will be reduced by the amount of the deadweight loss
- C The loss in consumer surplus will be balanced by the increase in producer surplus
- D There will be a transfer of surplus from consumer to producer

23 With reference to the diagram below, which statement is correct?



- A A revenue maximising firm would produce at Q1
- B A revenue maximising firm would price at P2
- C A profit maximising firm would produce at Q2
- D A revenue maximising firm would face higher average costs than a profit maximising firm

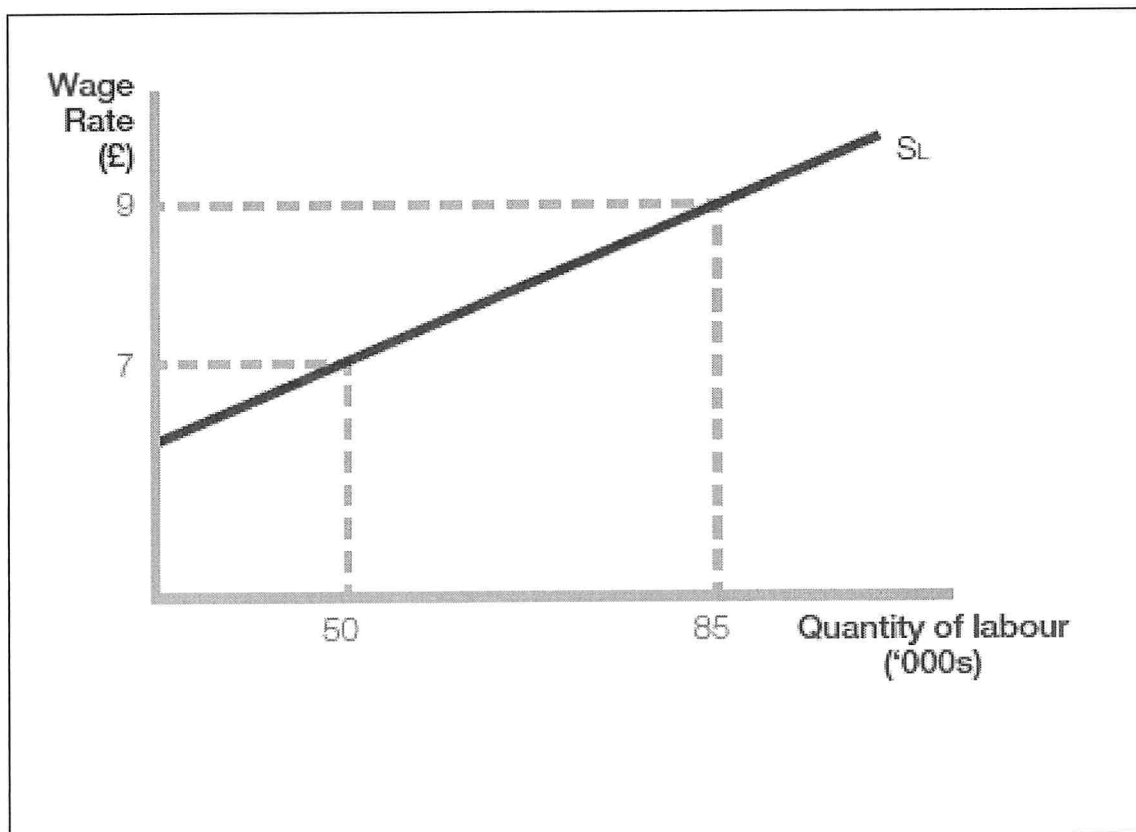
24 Which statement about the Law of Diminishing Returns is **incorrect**?

- A Diminishing returns set in where marginal product is maximised
- B Diminishing returns set in where the gradient of total product curve is at its steepest
- C Diminishing returns set in where total product is maximised
- D At output levels before diminishing returns set in, total product is increasing at an increasing rate

25 To benefit from specialisation, it is necessary

- A to have an efficient means of exchanging goods and services
- B for labour productivity to be high
- C for the production possibility boundary of the economy to be moving outwards over time
- D for significant economies of scale to be gained in all industries

26 For the labour supply curve depicted below, which of the following statements is correct in relation to the increase in the hourly wage rate from £7 to £9?



- A The percentage change in labour supplied is less than the percentage change in wage rate and as such the wage elasticity of supply of labour is negative
- B The percentage change in labour supplied is less than the percentage change in wage rate and as such the supply of labour is wage elastic
- C The percentage change in labour supplied exceeds the percentage change in wage rate and as such the supply of labour is wage inelastic
- D The percentage change in labour supplied exceeds the percentage change in wage rate and as such the supply of labour is wage elastic

27 The cross elasticity of demand for a substitute good is likely to be

- A negative
- B inelastic
- C unitary
- D positive

28 Bounded rationality is best defined as when

- A consumers act rationally based on perfect information
- B consumers opt to utility maximise rather than satisfice
- C consumers prefer to carry on behaving as they have always done
- D consumers act as rationally as they can in the light of imperfect information

29 A leakage from an economy's circular flow of income will result from:

- A a balance of trade deficit
- B a government budget deficit
- C investment expenditure by UK firms in the UK economy
- D foreign direct investment into the UK from Japan

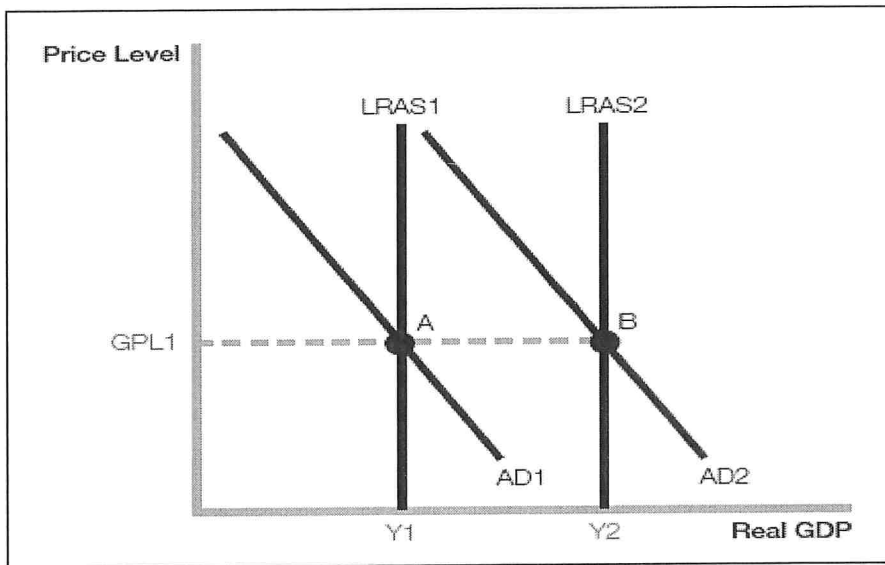
30 Which combination of events is most likely to increase inflation **and** increase inequality in the UK?

- A An appreciation of sterling, a decrease in the personal allowance for income tax and an increase in interest rates
- B A depreciation of sterling, a decrease in the personal allowance for income tax and an increase in interest rates
- C An appreciation of sterling, an increase in the personal allowance for income tax and an increase in interest rates
- D A depreciation of sterling, a decrease in the personal allowance for income tax and a decrease in interest rates

31 Under which circumstances would an increase in government budget deficits be considered the most appropriate policy?

- A when there is a balance of payments trade deficit on current account
- B when credit ratings agencies such as Fitch have suggested that the debt to GDP ratio is dangerously high
- C when economic growth is negative
- D when inflation is above target and consumer confidence is high

32 Which of the following scenarios would result in a shift from equilibrium A to equilibrium B



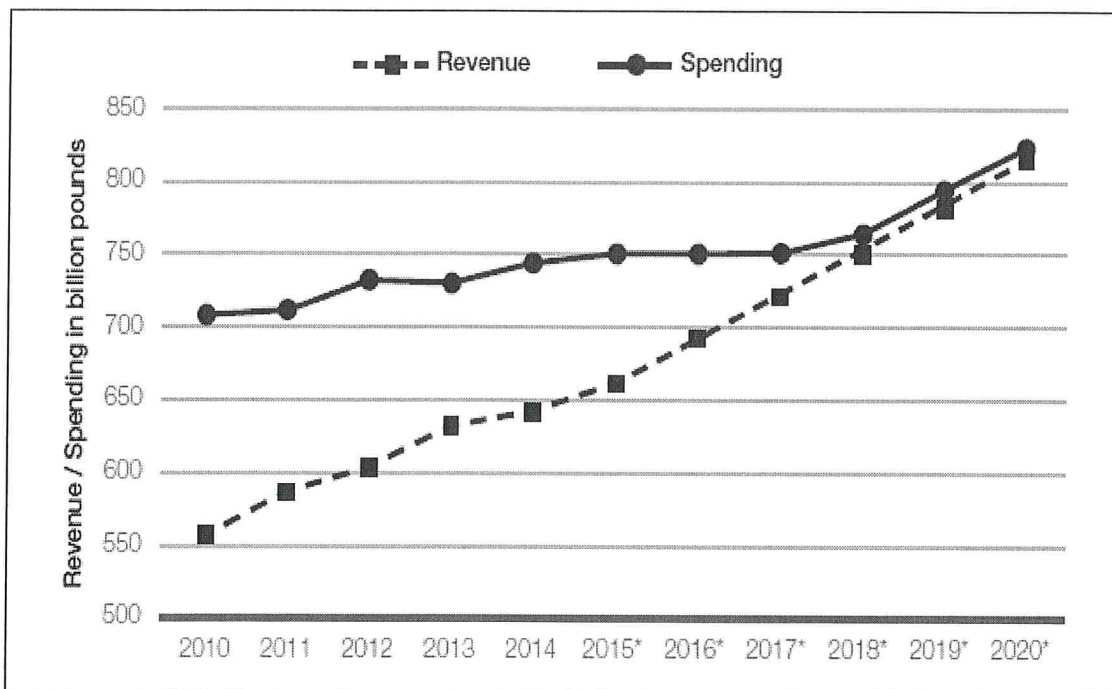
- A a depreciation of the exchange rate and cut in corporation tax
- B a cut in corporation tax and an increase in imports
- C a reduction in government spending on welfare and the removal of apprenticeships
- D a rise in income tax and a cut in corporation tax

33 The table below indicates the unemployment rate and inflation rate for an economy between 2013 and 2015. Which one of the following can be deduced from the data?

	Unemployment rate %	Inflation rate %
2013	5.2	2.5
2014	4.7	4
2015	4.3	2.8

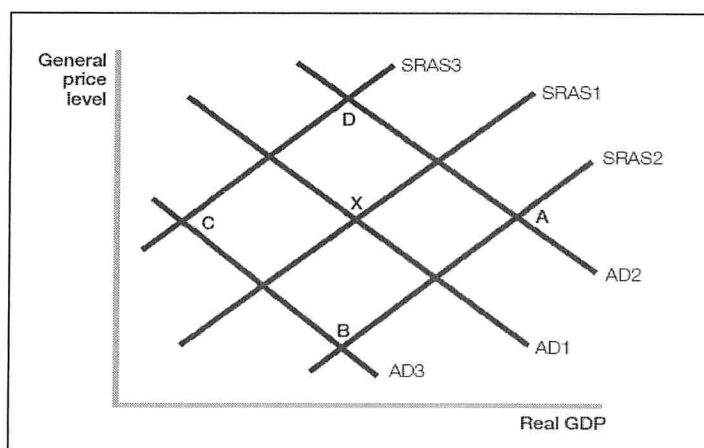
- A Employment rose between 2013 and 2015
- B Prices fell between 2013 and 2014
- C The total number of people out of work fell between 2013 and 2015
- D Prices were higher in 2015 than in 2013

34 Based on the data below, which statement is correct



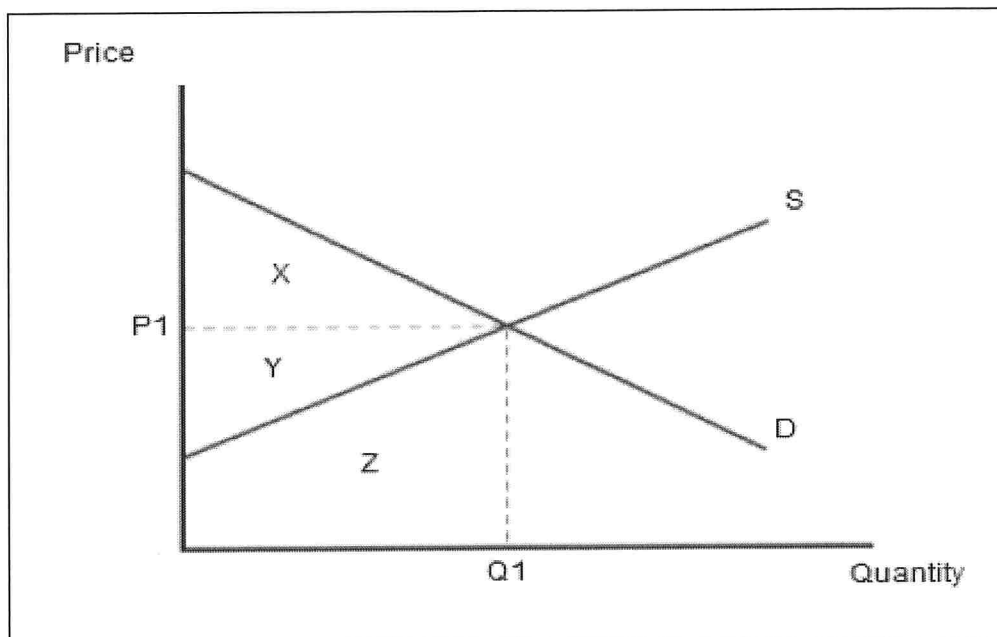
- A Over the period, the budget deficit is expected to rise
- B Over the period, national debt is expected to rise
- C Over the period, national debt is expected to fall
- D By the end of the period, national debt is expected to be approximately £0

35 An economy is in equilibrium at point X. An appreciation of that country's exchange rate is most likely to cause equilibrium to move from point X to point?



- A A
- B B
- C C
- D D

36. The diagram below illustrates the demand and supply for a good T. Which area represents the total revenue for the firm if it can charge each individual consumer the maximum amount they are willing to pay for good T? (assume the firm is a profit maximiser)

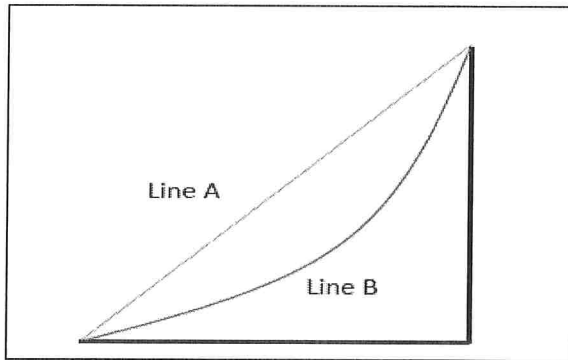


- A. X
- B. X + Y
- C. X + Y + Z
- D. Y + Z

37. A firm in a perfectly competitive market is profit maximising, but finds that its price is below its average cost. Such a firm should

- A. raise prices immediately
- B. continue to operate so long as the price is lower than the average variable cost
- C. shut down immediately
- D. continue to operate so long as the price is higher than the average variable cost

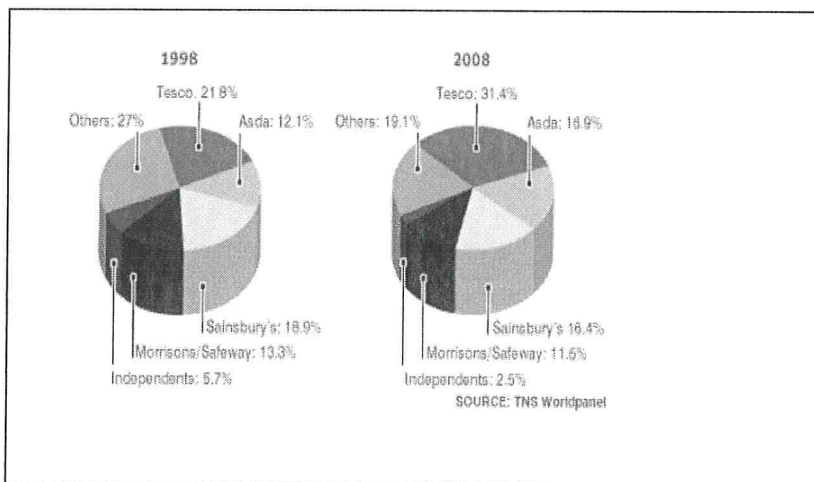
38. The diagram below represents the Lorenz curve for an economy, but a number of the labels are missing.



If this economy were to experience an increase in inequality, what is the likely effect on the diagram above?

- A. Line A would shift inwards
- B. Line B would become straighter
- C. The gap between Line A and Line B would increase
- D. Line A would bow inwards

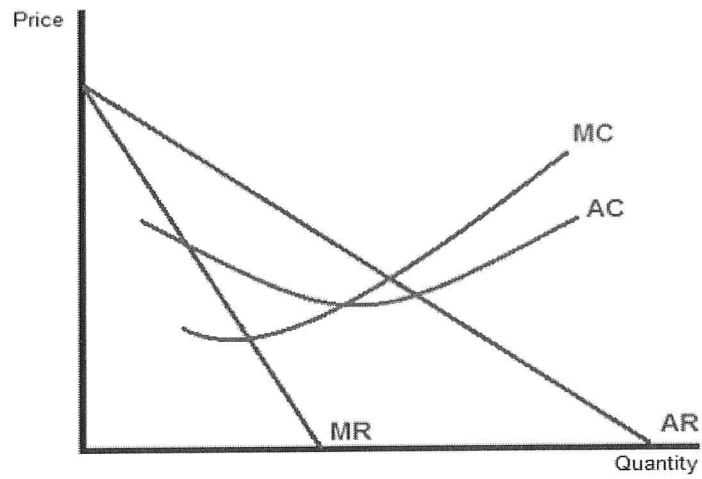
39 . The graphic below illustrates the market share for the UK supermarket industry for 1998 and 2008.



From the information above, which of the following statements is most valid?

- A. The 3-firm concentration ratio has fallen over the period
- B. A merger between Morrisons and Safeway in 1998 would have been referred automatically to the competition authorities
- C. the market has become more concentrated
- D. The total sales revenue for the industry increased over the period

40 A monopolist decides to switch from an objective of sales maximisation to profit maximisation. What will be the effect on price and quantity?



	Price	Quantity
A.	Increases	Increases
B.	Increases	Decreases
C.	Decreases	Increases
D.	Unchanged	Unchanged