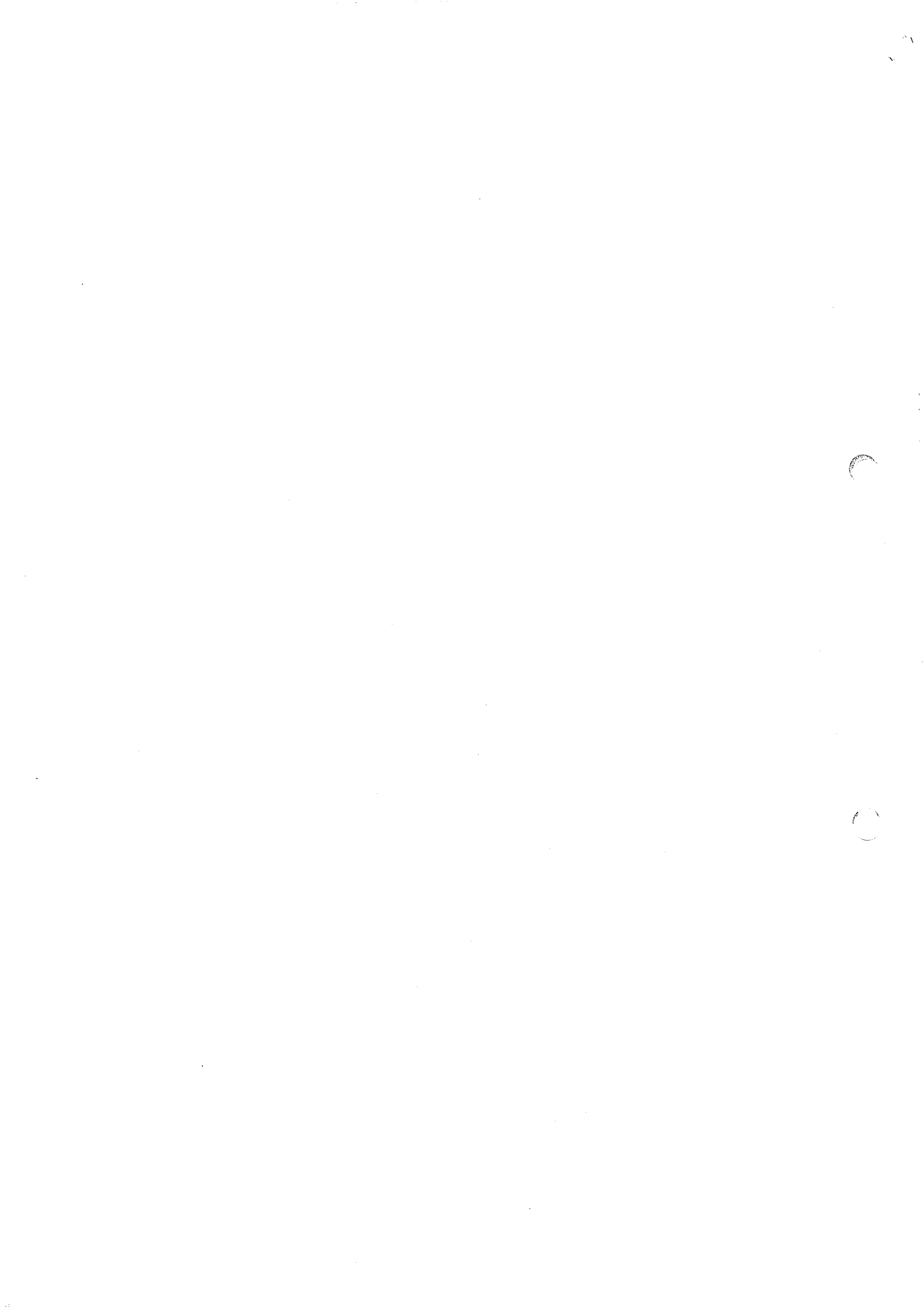


A2 Economics Past Papers

Paper 1

Paper 2

Paper 3



A-level ECONOMICS

Paper 1 Markets and market failure

Tuesday 5 June 2018

Afternoon

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front cover of your answer book.
The **Paper Reference** is 7136/1.
- In **Section A** answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

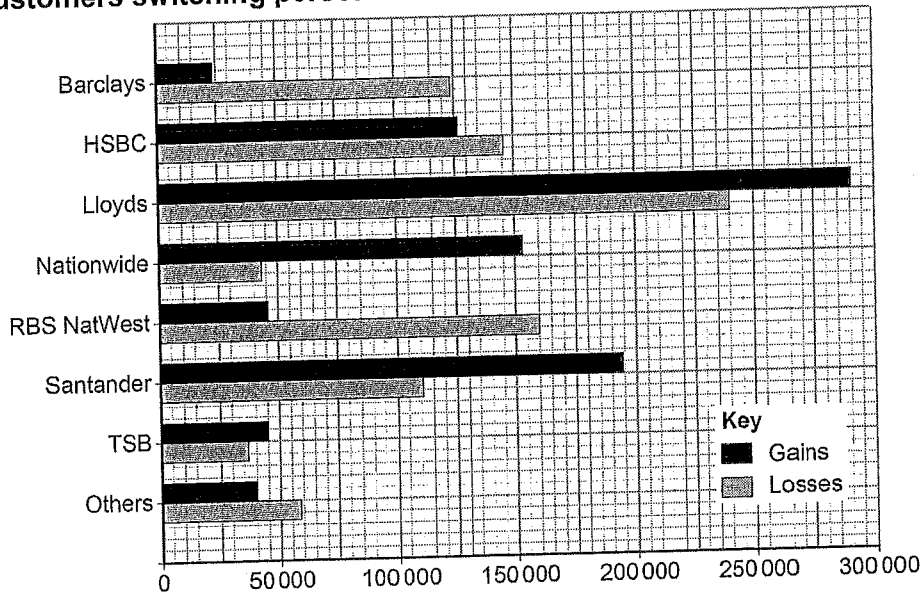
Context 1

Total for this context: 40 marks

Competition in UK Banking

Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A: Customers switching personal bank accounts in 2016



Source: BACS

Extract B: Gradual change in the UK banking market

There have been 11 separate inquiries into the banking sector in the past 17 years but not much has changed. As in 1999, the Big Four of HSBC, Barclays, RBS NatWest and Lloyds dominate the market with a combined market share of 75%. A 2017 inquiry by the Competition and Markets Authority (CMA) concluded that banks do not feel enough pressure to compete on price or quality, leading some to call for the Big Four to be split into a number of smaller banks. Nevertheless, the personal account market has changed, with an increase in product innovation, suggesting that competition is working. Whilst 'free if in credit' accounts remain dominant, a third of newly opened accounts charge fees in exchange for a premium rate of interest or cashback on purchases.

Last year fewer than 1 million customers (from a total 70 million) switched accounts, though switching rates may not be the best indicator of competition. The market lacks the same prompts to switch as other markets, such as the annual cost of renewing car and house insurance. The personal account market is therefore more static than energy, telecommunications and insurance. Ultimately, consumers do not operate like economists, rationally examining each product in detail and securing the best deal. Some of the stickiness in the market also derives from higher satisfaction rates (91%) than other sectors.

The CMA inquiry is unlikely to worry the Big Four as the most significant proposed reform amounts to little more than a new app to help customers switch accounts. The idea is that people will be more inclined to switch if they have transparency about charges and interest

rates. Greater contestability, with more customers switching and the entry of new players, has improved value for money for all customers, not only switchers. Revenue per active account has fallen by 17% in real terms since 2006, as banks offer higher rewards to keep or win customers. While the new entrants have yet to grow to a significant size, mid-sized providers like Santander have grown their market share. From this perspective, breaking up the Big Four may seem to be too extreme a measure. 20

25

Source: News reports, August 2017

Extract C: The rise of challenger banks

As the first new high street bank in 150 years, Metro Bank promises to operate distinctively: longer opening times than its rivals, instant debit cards for new account holders and eye-catching initiatives such as in-store dog water bowls. There are plans to grow its branch network from 48 to 110 by 2020. This bucks the UK trend for closing bank branches, more than 8000 of which have disappeared from high streets in the past 25 years. Metro Bank's Chief Executive Officer said of the big banks: "They act like oligopolies are supposed to: they under-invest; under-serve and they take you for granted." 5

Many of the major banks suffer from inefficient, outdated IT infrastructure which limits their ability to reduce prices. They may also suffer from diseconomies of scale, given the size of their workforce and the breadth of their operations. There is ample opportunity for new players to enter the sector. 10

Metro Bank may take years to grab meaningful market share in the UK. Its straightforward business model involves opening new branches, collecting deposits and lending these funds to borrowers. This is safer than the riskier funding methods deployed by the some of the banks that failed during the financial crisis, but is unlikely to generate rapid growth. Even so, its customer focus puts pressure on dominant banks to improve their service. 15

Source: News reports, August 2017

0 1

Using **Extract A**, calculate the ratio of customers gained to customers lost by Nationwide. Give your answer correct to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A** show that the market power of the Big Four banks is weakening against competition from smaller rivals.

[4 marks]

0 3

Extract C (lines 10–11) states that 'There is ample opportunity for new players to enter the sector.'

With the help of a diagram, explain how the lowering of barriers to entry in the banking market might lead to lower prices and a situation in which banks make normal profit.

[9 marks]

0 4

Extract B (lines 4–6) states that 'banks do not feel enough pressure to compete on price or quality, leading some to call for the Big Four to be split into a number of smaller banks.'

Use the extracts and your knowledge of economics to assess the view that the government should intervene further in the banking sector to promote greater competition.

[25 marks]

Turn over ►

Do **NOT** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Automation and the Labour Market

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D: The threat of automation to selected UK industries

Table of figures showing automation in UK industries cannot be reproduced here due to third-party copyright restrictions.

Extract E: The rise of the robots

Workers have always been concerned about their livelihoods being replaced by new technology, but many economists maintain that technology has always ended up creating more jobs than it destroys. Automating tasks increases the demand for workers elsewhere. When weaving was automated in the 18th century workers shifted into operating and maintaining the new machines. Gradually, wages rose in line with productivity. The same pattern can be seen with computerisation. 5

But could this time be different? This time around automation is broader-based as every industry uses computers. During previous waves of automation, workers could switch from one kind of routine work to another; but this time many workers must switch from routine, unskilled jobs to non-routine, skilled jobs to stay ahead of automation. A recent report found that in the US between 1990 and 2007, the addition of each robot into manufacturing industries resulted in the loss, on average, of 6.2 jobs and depressed wages. The report argues that even if overall employment and wages recover, there will be losers in the process, and it will take a very long time for these communities to recover. The market economy is not going to create the jobs by itself for those workers who are most affected by the change. 10 15

Others argue that producers need a profitable market to sell to, and such markets only exist if consumers earn enough to purchase their goods and services. If robots replaced all workers, thereby creating mass unemployment, where would demand come from?

Source: News reports, 2017

Extract F: Policy responses

Robots are no different from earlier technologies in that they are capital goods which can enrich those who own them. Bill Gates, the founder of Microsoft, has suggested a robot tax, which has since become widely debated. Larry Summers, former US Treasury Secretary, thinks taxing productivity-enhancing tools like robots or machines makes no economic sense: "Staving off progress is a poor strategy for helping less fortunate workers." 5

The prospect of large rises in unemployment and inequality has led to the suggestion of a Universal Basic Income (UBI). A UBI is a fixed payment to all members of society, regardless of income, which could replace costly welfare and unemployment benefits. It can

also create incentives for individuals to take risks, start businesses, change jobs, return to education or try a new career. Critics point out that getting a cheque from the government may help, but it doesn't provide the fulfilment that comes from employment. 10

A recent report suggested that the government should provide lower-skilled workers with more training to help them manage the changing demand for labour. Another way to deal with sudden unexpected layoffs is for the government to create jobs, primarily in sectors not adequately served by the private sector such as care for the elderly and children, health, education and the arts. 15

Source: News reports, 2017

0 5

Using **Extract D**, calculate the number of transportation and storage jobs at high risk of automation, as a percentage of those who are at high risk across all industries. Give your answer to **two** decimal places.

[2 marks]

0 6

Explain how the data in **Extract D** show that workers employed in routine, repetitive work are at greater risk from automation.

[4 marks]

0 7

Extract E (lines 4–5) claims that workers in the 18th century saw wages rise in line with productivity.

With the help of a diagram, explain how advances in modern technology are likely to lead to rising wages in some industries.

[9 marks]

0 8

Extract E (lines 14–16) states that 'The market economy is not going to create the jobs by itself for those workers who are most affected by the change.'

Extract F (lines 4–5) states that 'taxing productivity-enhancing tools like robots or machines makes no economic sense.'

Use the extracts and your own knowledge of economics to evaluate whether governments should allow markets to respond freely to the opportunities and challenges presented by technological progress, without any state intervention.

[25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

According to Public Health England, poor air quality is the largest environmental risk to public health in the UK. In particular, diesel cars are estimated to be responsible for 40 000 premature deaths each year. In response, the Government announced in 2017 that it would ban the sale of new petrol and diesel cars by 2040.

0 9

Explain why the use of petrol and diesel cars may be a source of market failure.

[15 marks]

1 0

Assess the view that regulation is a better policy for dealing with the problem of air pollution than the allocation of property rights or taxation.

[25 marks]

OR

Essay 2

The Resolution Foundation estimates that 1% of adults, about 488 000 people, own 14% of the UK's assets – worth about £11 trillion. At the other end of the scale, 15% of adults, about 7.3 million people, either own no assets at all, or are in debt. Meanwhile, income is also unequally distributed, but not to the same extent as wealth.

1 1

Explain how the Lorenz curve and Gini coefficient may be used to illustrate increasing income inequality in a country.

[15 marks]

1 2

Assess the view that, in the UK, the consequences of wealth inequality are more damaging than the consequences of income inequality.

[25 marks]

OR

Essay 3

In the United States, corporate profits since 2010 have averaged 9% of GDP, compared to 5% in the 1990s. This is causing concern that the US economy is increasingly dominated by companies with monopoly power.

1 | 3

Explain the role of profit in a market economy.

[15 marks]

1 | 4

Evaluate the view that a firm making low profits must be inefficiently managed.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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A-level ECONOMICS

Paper 2 National and international economy

Tuesday 12 June 2018

Afternoon

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Context 1

Total for this context: 40 marks

The UK's trade balance

Study Extracts A, B and C and then answer all parts of Context 1 which follow.

Extract A

Figure 1: Sterling effective exchange rate index, November 2015 to November 2016

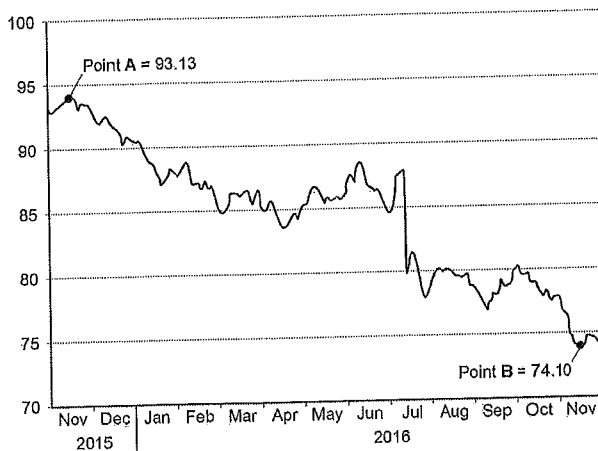
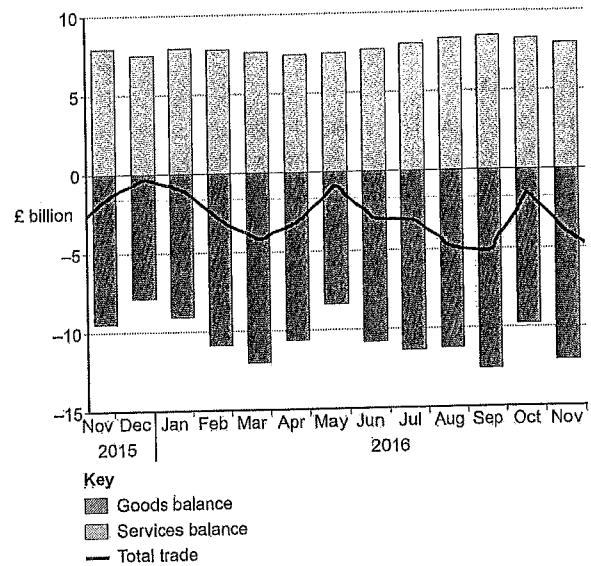


Figure 2: Balance of UK trade, November 2015 to November 2016



Source: ONS

Extract B: The UK's trade deficit

In September 2016, the UK's trade deficit with the rest of the world widened unexpectedly. Exports fell, despite a sharp fall in the value of the pound. The trade deficit in goods alone rose to £12.7bn. The value of imports increased by £1.3bn to £38.8bn, while exports fell by £0.2bn to £26.1bn. The rebalancing of the UK economy to achieve export-led growth has not happened yet.

5

The disappointing trade figures suggest that the 16% fall in the value of the pound since the EU referendum in June 2016 has failed to lift exports significantly. An economist at Scotiabank, said "If we are lucky, the weak pound may boost exports, but export growth tends to be driven more by the strength of overseas demand, rather than the exchange rate." Others point to a lack of competitiveness and low productivity as being central to the UK's poor export performance.

10

In Quarter 3 of 2016, the UK economy grew much faster than many economists had initially expected, with signs that the growth had been supported by rising consumer spending. This may be one of the reasons why imports of goods have increased. A statistician at the ONS, said that "In this first full quarter since the EU referendum, there is little evidence of the lower pound feeding through into trade volumes or prices."

15

In recent years, the UK's earnings on assets overseas have fallen relative to the earnings of foreign investors in the UK. This contributed to the deterioration in the

current account balance, leading to a record deficit of 5.4% of GDP in 2015. Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit. The effects on employment, the need to attract inward investment and the possible negative effects on growth and living standards are among the causes for concern. 20

Source: News reports, 2016

Extract C: Germany's trade surplus

Germany's surplus on the current account of its balance of payments surged to a record level in 2015, at 8.5% of GDP. It has now overtaken the Chinese surplus as the largest imbalance in the world. This imbalance is clearly causing problems inside the eurozone and globally. If the German current account is in surplus, it implies that other nations are in deficit. 5

Although the German government views the surplus as evidence of economic success, there is growing pressure from other countries and the European Commission for Germany to take steps to reduce the surplus. Trade deficits and surpluses may be self-correcting in a floating exchange rate system, but as Germany is part of the eurozone, its currency does not fluctuate against those of other member countries, since they all use the euro. 10

Germany's surplus has been increased by low oil prices and the relatively low value of the euro. Healthy growth in other European nations has also contributed to strong demand for German exports. Whatever the reason for Germany's surplus, the UK may only look on in envy. 15

Source: News reports, 2016

0 1 Using the data in **Extract A (Figure 1)**, calculate the change in the effective exchange rate index, as a percentage, between November 2015 (point A) and November 2016 (point B). Give your answer to **two** decimal places. **[2 marks]**

0 2 **Extract B** describes the trade figures as 'disappointing'. Explain how the data in **Extract A (Figure 2)** show that the UK's trade performance has been 'disappointing' given the fall in the value of the pound since November 2015. **[4 marks]**

0 3 **Extract C** (lines 8–9) states 'Trade deficits and surpluses may be self-correcting in a floating exchange rate system.' With the help of a diagram showing the supply of and demand for a currency, explain how a floating exchange rate may help to correct a trade surplus. **[9 marks]**

0 4 **Extract B** (lines 19–21) states 'Although some argue that a current account deficit is not a problem, others point to the worryingly large and persistent nature of the deficit.' Using the data in the extracts and your knowledge of economics, assess the impact of a persistent current account deficit on the macroeconomic performance of the UK economy. **[25 marks]**

Turn over ►

Do **not** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Monetary policy and stability

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D

Figure 3: UK household gross debt to income, 2006 to 2020

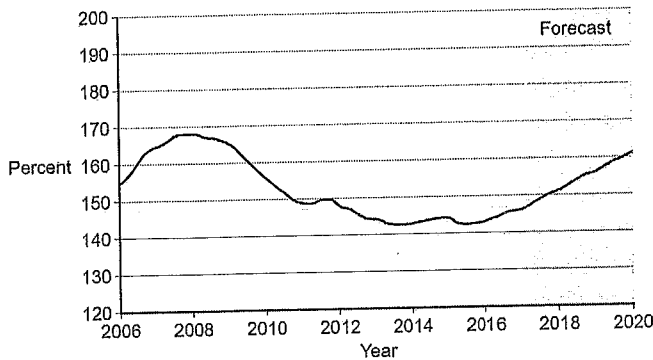


Figure 4: Household saving ratio, 2006 to 2016

Year	Saving ratio (%)
2006	7.6
2008	7.5
2010	11.2
2012	9.3
2014	8.4
2016	7.1

Source: ONS

Extract E: Financial regulation and monetary policy

In response to the lessons learned from the global financial crisis of 2007/08, the government of the UK has introduced major reforms to financial markets. The government recognised that systemic risk, moral hazard and imperfect information had all contributed to the credit crunch and subsequent recession in the UK. As a result, changes have been made to try to avoid a recurrence of failing banks and expensive state-backed bailouts.

5

The Prudential Regulation Authority (PRA) was established to ensure the stability of firms offering financial services and the Financial Conduct Authority (FCA) was set up to regulate the industry. Also, the Bank of England is responsible for supervising the whole financial system through the Financial Policy Committee (FPC). The FPC identifies and attempts to reduce risks in the system. The new framework is seen as the biggest change for the Bank of England since it was given operational independence for the conduct of monetary policy in 1997.

10

Since 2013, the Treasury has required the Bank of England to place more emphasis on helping the government to achieve its objectives for growth and employment, in addition to its central objective of maintaining price stability. However, some argue that trying to maintain stable prices and low unemployment could create trade-offs.

15

The Monetary Policy Committee's decision to lower Bank Rate to 0.5% in 2009, and the subsequent decision to lower it to 0.25% in 2016, have been instrumental in the UK's sustained recovery and return to low levels of unemployment. The Bank of England has also used quantitative easing (QE) to boost consumption and investment. Maintaining low interest rates is considered by many to be vital for both consumer and business confidence.

20

Source: News reports, 2016

Extract F: A new financial crisis?

Has increased regulation worked or could the UK be on the verge of another financial crisis? The Bank of England is keeping a close watch on consumer spending amid signs that households are reducing their savings and building up debts. The Governor of the Bank, Mark Carney, said that consumption has been high in recent times, helping the economy, but he repeated the warning that living costs were likely to rise on the back of a weak pound and put a strain on households' real incomes. He also stated: "The saving ratio has fallen towards its pre-crisis lows, and consumer borrowing has accelerated noticeably." 5

It can be argued that rising borrowing has been caused by Bank Rate being kept too low for too long. The Austrian economist, Friedrich Hayek, highlighted artificially low interest rates and excessive credit creation as being the main causes of cyclical instability, damaging both investment and confidence. Asset price bubbles occur, including unsustainable rises in house prices, and eventually boom turns to bust. A major cause of the financial crisis in 2007/08 was arguably the unsustainably high level of debt that had been accumulated, but total world debt is now far in excess of the 2008 level. 10 15

Some form of financial crisis appears to occur every 7 to 10 years. As inflation rises, there will come a time when the Monetary Policy Committee decides to increase Bank Rate. This will affect many people who have become accustomed to cheap credit and who are tied into mortgages where the monthly repayments vary with interest rates. 20

Source: News reports, 2016

0 5 Using the data in **Extract D (Figure 4)**, calculate the average amount saved per household in 2016 if average household income was £26 300. Give your answer to the nearest pound. **[2 marks]**

0 6 Explain how the data in **Extract D (Figures 3 and 4)** show that consumer confidence may have risen since 2014. **[4 marks]**

0 7 **Extract E** (lines 16–17) states 'However, some argue that trying to maintain stable prices and low unemployment could create trade-offs.'
With the help of a diagram, explain why a trade-off between price stability and low unemployment might occur. **[9 marks]**

0 8 **Extract F** (lines 10–12) states 'The Austrian economist, Friedrich Hayek, highlighted artificially low interest rates and excessive credit creation as being the main causes of cyclical instability.'
Using the data in the extracts and your knowledge of economics, evaluate the view that maintaining low interest rates for a sustained period of time may be damaging to the UK's macroeconomic stability. **[25 marks]**

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

An African Development Bank report showed that Angola received more direct foreign investment than any other African country in 2015. Angola is a less economically developed country (LEDC) that has had fluctuating economic growth in the past. Despite having suffered from a long civil war which ended in 2002, many multinational corporations (MNCs) are now investing heavily in Angola's growing economy.

0	9
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Explain the main barriers that LEDCs face when attempting to achieve stable, long-term economic growth.

[15 marks]

1	0
---	---

Evaluate the view that MNCs play a positive role in the development of LEDCs.

[25 marks]

OR**Essay 2**

In the 2016 Autumn statement, the UK Chancellor of the Exchequer, Philip Hammond, officially abandoned the government's policy of trying to achieve a budget surplus by 2020. While some criticise the government for failing to achieve its fiscal target, others argue that the government should be doing more to help the supply side of the economy.

1	1
---	---

Explain how fiscal policy can be used to try to improve the supply side of an economy.

[15 marks]

1	2
---	---

Evaluate whether achieving a budget surplus is a desirable objective of economic policy.

[25 marks]

OR

Essay 3

In July 2017, more people were employed in the UK than ever before. At the same time, the UK unemployment rate fell to 4.3%, the lowest rate for 40 years. Whilst this suggests that the government's policies for employment are working, some claim that zero-hours contracts, low real wages and temporary jobs have made many people worse off.

1 3

Explain the causes of cyclical **and** structural unemployment.

[15 marks]

1 4

Assess the view that falling unemployment will inevitably lead to an improvement in the standard of living for people in the UK.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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A-level ECONOMICS

Paper 3 Economic principles and issues

Insert

DO NOT WRITE ANY ANSWERS IN THIS INSERT. YOU MUST ANSWER THE QUESTIONS IN THE ANSWER BOOKLET PROVIDED.

The World Energy Market

Questions 31 to 33

- **Extract A:** What is OPEC?
- **Extract B:** The market for energy is changing
- **Extract C:** Trends in the world market for energy
- **Extract D:** Falling oil prices hit the oil-exporting countries hard
- **Extract E:** Crisis? What crisis?

Extract A: What is OPEC?

OPEC is an organisation of 13 oil-producing countries. In 2015, OPEC accounted for an estimated 42% of global oil production and 73% of the world's 'proven' oil reserves, enabling OPEC to influence the price of oil. The current members of OPEC are: Algeria, Angola, Ecuador, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

5

OPEC is often cited as a classic example of a cartel, a group of independent producers who collude to increase their collective profits by limiting supply to raise prices. However, OPEC's power is reduced by the expansion of non-OPEC energy sources and by the temptation for individual OPEC countries to exceed production ceilings.

Source: News reports, April 2017

Extract B: The market for energy is changing

The energy industry is going through a period of profound change. Concerns about carbon emissions and global warming have led to policies that are shifting production away from coal towards natural gas and renewable energy. On the demand side, weaknesses in the global economy have meant that energy consumption has only grown slowly, but that will change if global economic growth picks up. The supply of energy has been affected by technological advances that have altered the range, availability and relative cost of producing different fuels. In the US, the shale revolution, allowing oil and gas to be extracted from shale by fracking, has opened up vast, new supplies of these fossil fuels. Other improvements in technology have stimulated growth in the output of renewable energy, particularly wind and solar power. The flip side of this is a fall in the demand for coal.

5

10

Changes in the supply and demand for different fuels have significant effects on relative prices. Price changes play a key role in promoting adjustments in energy markets which affect the pattern of consumption and investment in energy.

Source: News reports, April 2017

Extract C: Trends in the world market for energy

Figure 1 Energy consumption by fuel, million tonnes

	2006	2009	2012	2015	2016
Oil	3 984	3 956	4 176	4 341	4 418
Natural gas	2 573	2 676	2 997	3 147	3 204
Coal	3 294	3 476	3 817	3 785	3 732
Nuclear energy	635	614	559	583	592
Hydroelectricity	688	737	832	883	910
Other renewables	93	144	239	367	420
Total	11 267	11 603	12 620	13 106	13 276

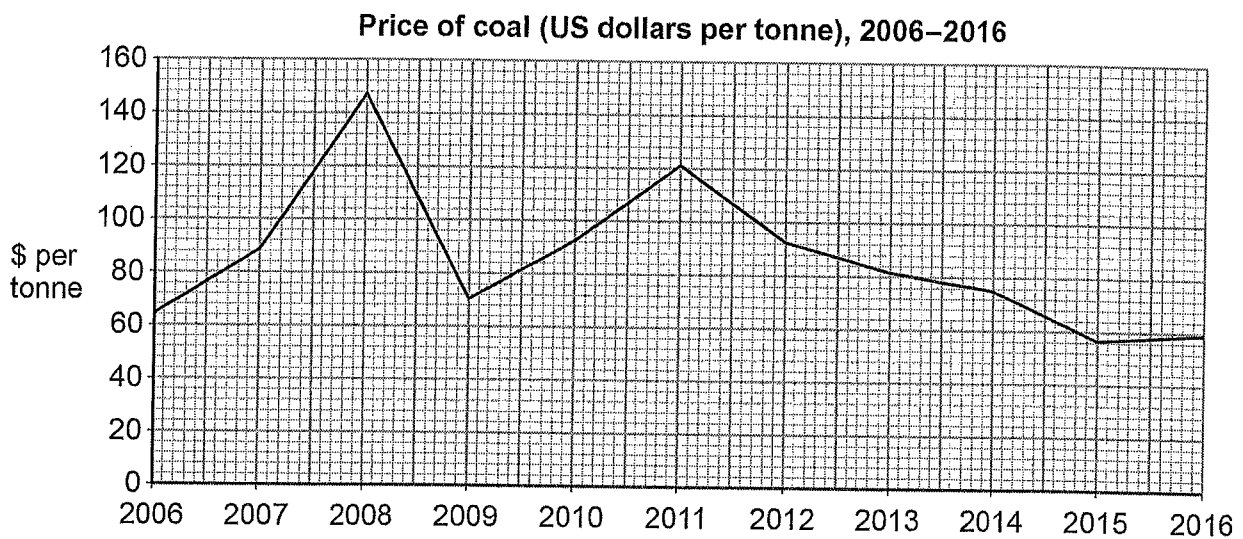
Note: Oil consumption is measured in million tonnes; other fuels in million tonnes of oil equivalent
 Oil, natural gas and coal are fossil fuels
 Other renewables include energy generated from the following renewable sources: wind, solar, geothermal, biomass and waste

Source: BP statistical review of world energy 2017

Figure 2 Average cost of producing oil (US dollars per barrel), March 2016

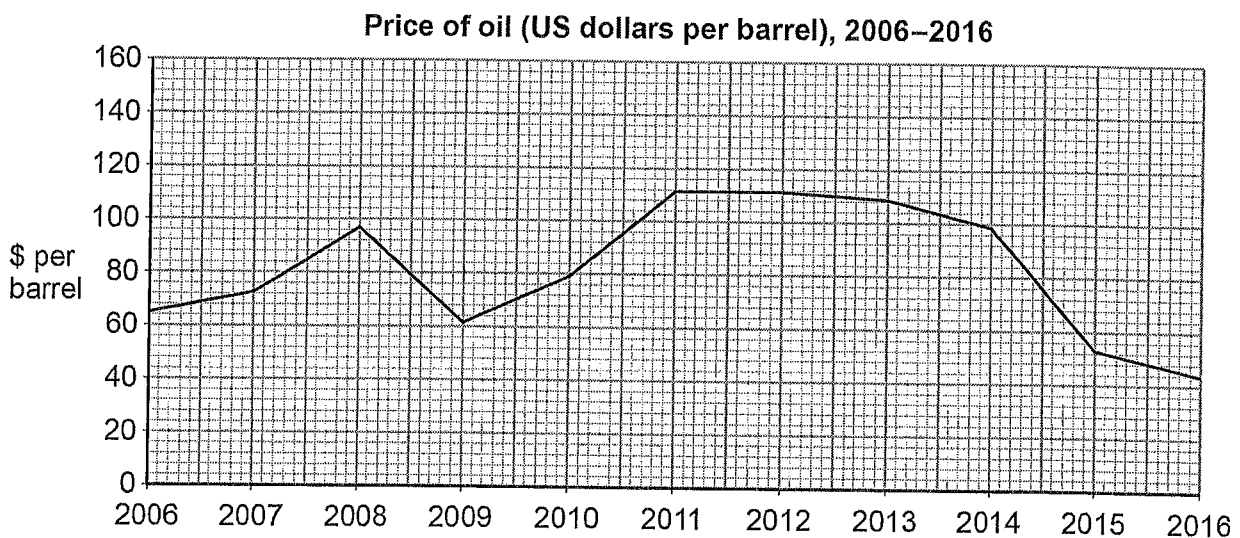
	Cost (\$)
UK	44.33
Nigeria	28.99
Venezuela	27.62
US shale	23.35
US non-shale	20.99
Saudi Arabia	8.98

Figure 3 The price of coal



Source: BP statistical review of world energy 2017

Figure 4 The price of oil



Source: BP statistical review of world energy 2017

Extract D: Falling oil prices hit the oil-exporting countries hard

In 2014, despite the rapid fall in the price of oil, Saudi Arabia and the other OPEC countries did not cut production. Some believe that they wanted to make shale oil production in the US unprofitable to weaken a growing threat to OPEC's domination of the world oil market.

A fall in oil prices leads to a contraction of the oil sector in oil-exporting countries and also has other effects on their economies. For example, in the Middle East and North Africa, oil-based revenues often account for more than half of government revenue. A significant loss of government revenue may require a substantial reduction in public spending. A decline in oil prices reduces export revenues, leading to a deterioration in the current account of their balance of payments, usually causing a depreciation in their exchange rates. This is an important mechanism through which the economy can adjust, but it makes imports more expensive, adds to inflationary pressures and is likely to reduce living standards. It may also make it difficult to attract capital inflows and to finance both the balance of payments and budget deficits. 5

The Nigerian economy has been hit hard by low oil prices and falling oil production. The country went into recession in 2016, with real national income contracting by 1.5%. The annual inflation rate doubled to 18.6%, reflecting the weakness of the Nigerian currency. Even after cuts in capital spending, the budget deficit increased from 3.5% of GDP in 2015 to 4.7% of GDP in 2016. 15

Venezuela derives over 95% of its export earnings and almost half of government revenue from oil-related sectors. Falling oil prices aggravated Venezuela's economic crisis and it is estimated that the economy contracted by 10% in 2016 after a similar fall in real GDP in 2015. In 2016, its inflation rate was around 275%. Worsening shortages of food, medicines and other consumer goods are a symptom of the country's very fragile economy. Deteriorating public finances mean that Venezuela is a high-risk debtor, making it hard for the country to attract foreign capital. These difficulties are not all down to the fall in the price of oil. Nevertheless, a fall in the oil price makes it harder to deal with problems that are common to many less economically developed countries. 20

Source: News reports, April 2017

Extract E: Crisis? What crisis?

In December 2016, the members of OPEC and 11 non-OPEC countries, including Russia, agreed to cut production to 'stabilise' the oil market and raise prices. The initial agreement was for six months but has since been extended for a further nine months. So far, compliance with the production cuts has been very high at 90% and oil prices have stabilised. 5

The fall in the price of oil has driven some US fracking companies out of business but it has not been as damaging as predicted. Many companies have learnt how to extract more shale oil from each rig, reducing the cost per barrel. Increases in productivity reduce the break-even price of extracting oil from shale by fracking. If oil prices rise, output and investment in the industry are likely to increase again. 5

Recently, growth in the world economy has picked up. This will boost the demand for oil and put upward pressure on oil prices. In the long run, developments in technology that lower the cost of supplying renewable energy and producing electric cars, buses and lorries will reduce the demand for oil. A high price for oil should incentivise such developments. 10

Source: News reports, June 2017

END OF EXTRACTS

Please write clearly in block capitals.

Centre number

Candidate number

Surname _____

Forename(s) _____

Candidate signature _____

A-level ECONOMICS

Paper 3 Economic principles and issues

Friday 15 June 2018

Morning

Time allowed: 2 hours

Materials

For this paper you must have:

- the insert
- a calculator.

Instructions

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

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Information

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



Section A

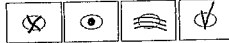


Answer **all** questions in this section.Only **one** answer per question is allowed.

For each answer completely fill in the circle 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

Which one of the following applies to merit goods?

- A Their marginal private benefit is greater than their marginal social benefit.
- B They are likely to be provided by the market.
- C They can only be supplied by the government.
- D They have the characteristics of non-excludability and non-rivalry.

[1 mark]

0 2

At the start of the financial year, an economy's national debt stands at £1000 billion. Over the course of the year, the government plans to spend an extra £100 billion and borrow an extra £40 billion.

If the government achieves its spending and borrowing targets, by the end of the financial year the national debt will have increased by

- A 4%
- B 10%
- C 14%
- D 40%

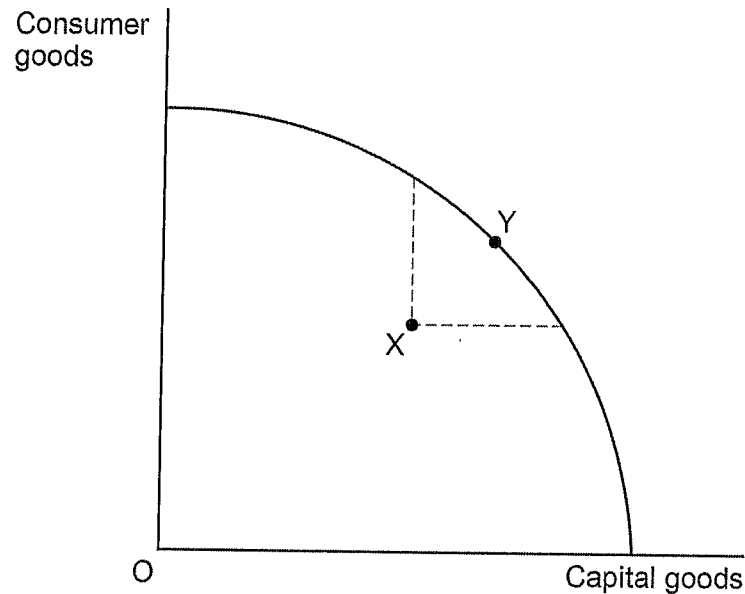
[1 mark]



0 3

The diagram below shows the production possibility frontier for an economy that produces consumer goods and capital goods. The economy is initially operating at point X within its frontier.

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box



If the economy now moves from point X to point Y on its frontier it will

- A achieve both productive and allocative efficiency.
- B benefit from improved economies of scale in the production of both goods.
- C increase its underlying trend rate of growth.
- D obtain more consumer goods and capital goods at zero opportunity cost.

[1 mark]

0 4

All other things being equal, an increase in the ratio of capital to labour resulting from an increase in investment is most likely to lead to a

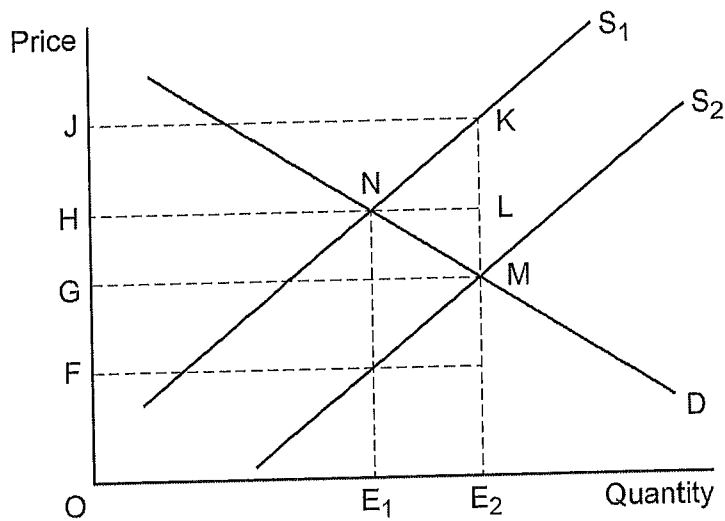
- A decline in labour productivity.
- B fall in the size of the labour force.
- C negative demand-side shock to the economy.
- D supply-side improvement.

[1 mark]



0 5

The diagram below shows the demand curve (D) and two supply curves (S_1 and S_2) in the market for renewable energy.



The renewable energy market is initially in equilibrium at a price of OH. The government then introduces a subsidy for renewable energy.

After the introduction of the subsidy, the total amount of money received by the producers from both consumers and the government is

A OGME₂

B OHLE₂

C OHNME₂

D OJKE₂

[1 mark]

0 6

Which one of the following provides a reason for government intervention in a market?

A Firms in an oligopolistic market may limit price competition.

B Market failures can only be corrected by using regulations.

C Monopolistically competitive firms earn abnormal profits in the long run.

D Public goods are excludable and rival.

[1 mark]



0 7

In recent years, several central banks around the world have implemented a policy of quantitative easing (QE). All other things being equal, which one of the following combinations **A**, **B**, **C** or **D**, is most likely to be the result of this policy?

Do not write
outside the
box

	Bank liquidity	Bond prices	Long-term interest rates	
A	Decrease	Fall	Rise	<input type="radio"/>
B	Increase	Fall	Rise	<input type="radio"/>
C	Decrease	Rise	Fall	<input type="radio"/>
D	Increase	Rise	Fall	<input type="radio"/>

[1 mark]

0 8

The price of good Y, a substitute for good X, rises from 75p to £1. As a result, the quantity of demand for good X rises from 3 million units to 5 million units per month.

What is the value of the cross elasticity of demand for good X with respect to good Y?

- A** +0.5
- B** -0.5
- C** +2.0
- D** -2.0

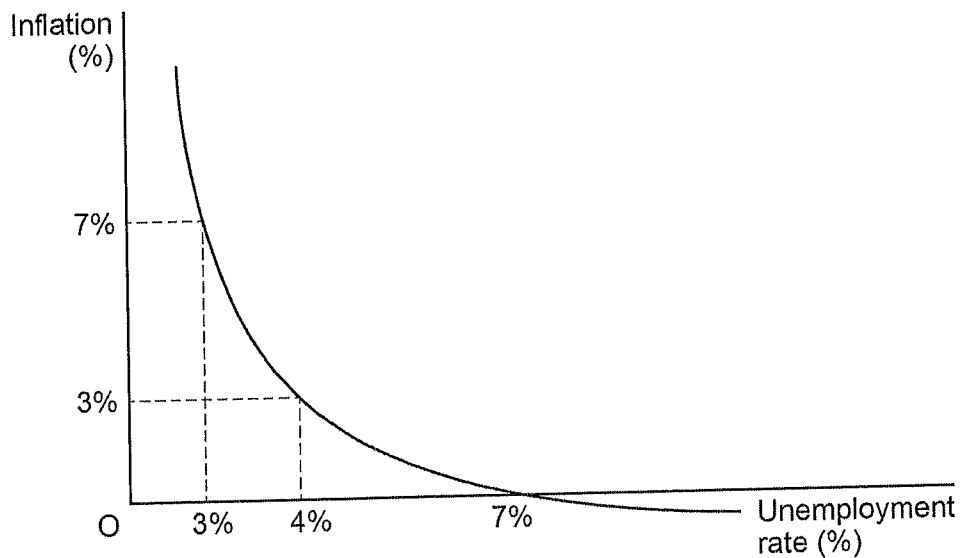
[1 mark]

Turn over for the next question



0 9

The short-run Phillips curve below illustrates the relationship between unemployment and inflation in an economy.



The Phillips curve shows that in this economy

- A high inflation leads to high unemployment.
- B there is an inversely proportional relationship between unemployment and inflation.
- C the trade-off for reducing inflation from 7% to 3% is a 4% increase in unemployment.
- D the trade-off for reducing unemployment from 7% to 4% is 3% inflation.

[1 mark]

1 0

Which one of the following is most likely to be associated with behavioural economic theory?

- A All consumer behaviour is based on rational utility-maximising decisions.
- B An individual's economic decisions may be biased.
- C Price changes cannot explain how competitive markets achieve equilibrium.
- D The behaviour of firms is based on their desire to maximise profit.

[1 mark]



1 1

At the initial market equilibrium, the income elasticity of demand for fresh chickens is +1.5, and the price elasticity of supply is +1.0. Then there is a 5% increase in consumers' income.

*Do not write
outside the
box*

Which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to show the changes in the market equilibrium price and quantity?

	Price	Quantity
A	Higher	Unchanged
B	Higher	Higher
C	Unchanged	Unchanged
D	Lower	Higher

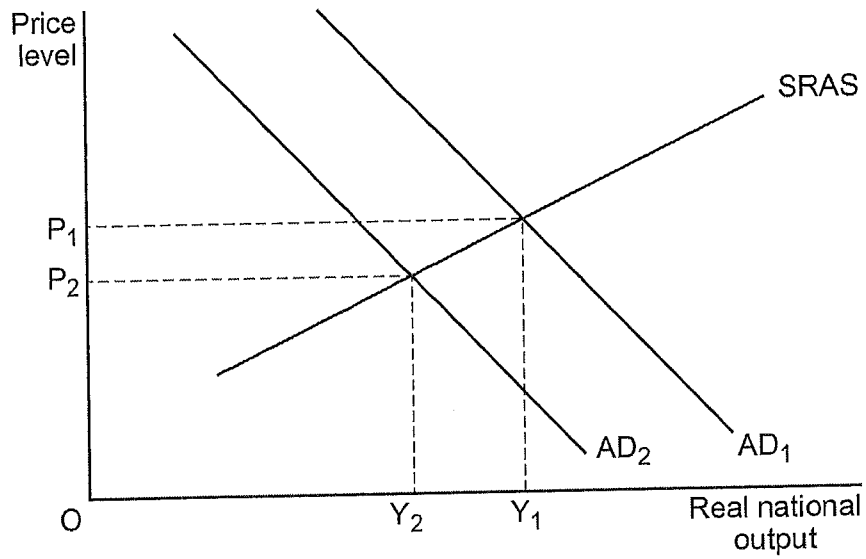
[1 mark]

Turn over for the next question



1 | 2

The diagram below shows two aggregate demand (AD) curves and the short-run aggregate supply (SRAS) curve for an economy.



All other things being equal, the change in real national output from Y_1 to Y_2 is most likely to have been caused by an increase in the

A government's budget deficit.

B level of interest rates.

C size of the labour force.

D volume of exports.

[1 mark]



1 3

An economy is in a state of macroeconomic equilibrium. The levels of investment, savings, exports and imports are shown below.

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Injections into and withdrawals from the circular flow of income	
Investment	£200 bn
Savings	£200 bn
Exports	£300 bn
Imports	£400 bn

It can be inferred from the data in the table above that

- A government expenditure equals taxation.
- B the budget surplus equals the balance of payments deficit.
- C the government has a budget deficit.
- D the government has a budget surplus.

[1 mark]

1 4

The table below shows how a firm's total and average product change, in the short run, with different inputs of labour.

Number of workers	Total product	Average product
4	128	32
5	260	52
6	420	70
7	497	71
8	528	66

Diminishing marginal returns to labour set in when the firm employs

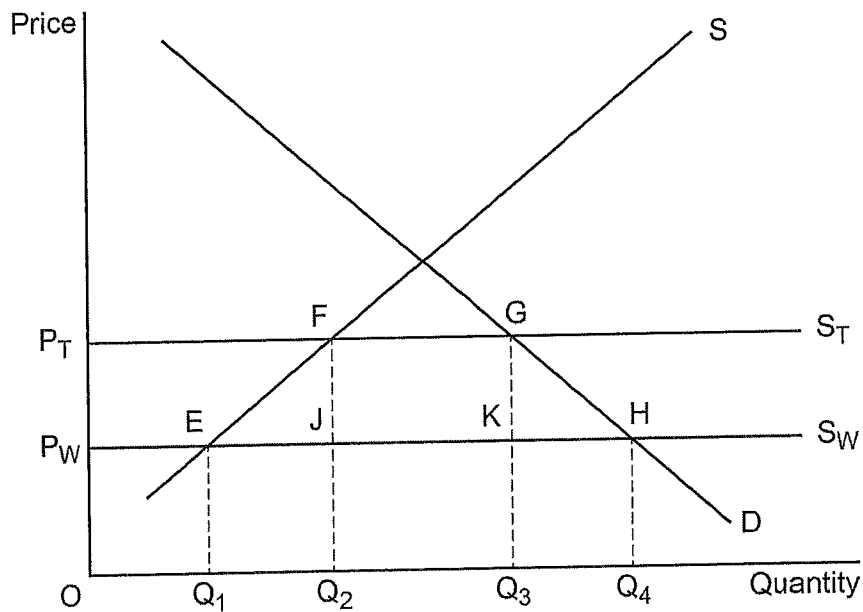
- A 5 workers
- B 6 workers
- C 7 workers
- D 8 workers

[1 mark]



1 5

The diagram below shows the market demand curve (D), the market supply curve (S) for solar panels produced in a country, and the world market supply curve (S_W) for solar panels.



To protect domestic producers of solar panels the country introduces a tariff on imports. The imposition of the tariff increases the price of solar panels from the world market price (P_W) to the higher price (P_T).

Following the imposition of the tariff, the amount of tariff revenue collected by the government is shown by the area

A EFGH

B JFGK

C $P_W P_T GK$

D $Q_2 FGQ_3$

[1 mark]



1 6

A person eats six biscuits a day to maximise their total utility from the consumption of biscuits.

The price of biscuits increases by 50%, leading to a change in the individual's daily consumption of biscuits.

Which one of the following combinations, **A**, **B**, **C** or **D**, shows the most likely changes in the individual's total utility and marginal utility?

	Total utility derived from their daily consumption of biscuits	Marginal utility derived from the last biscuit consumed each day	
A	Decrease	Decrease	<input type="radio"/>
B	Increase	Decrease	<input type="radio"/>
C	Decrease	Increase	<input type="radio"/>
D	Increase	Increase	<input type="radio"/>

[1 mark]

1 7

A large, unexpected decline in house prices could lead to a systemic crisis in the financial system.

This is most likely to happen if, following the fall in house prices, commercial banks and building societies

- A** have a low ratio of capital to their total assets.
- B** have followed Prudential Regulation Authority (PRA) guidance to reduce the amount they lend to high-risk borrowers.
- C** have the option to use the Bank of England as the lender of last resort.
- D** hold a high proportion of liquid assets on their balance sheets.

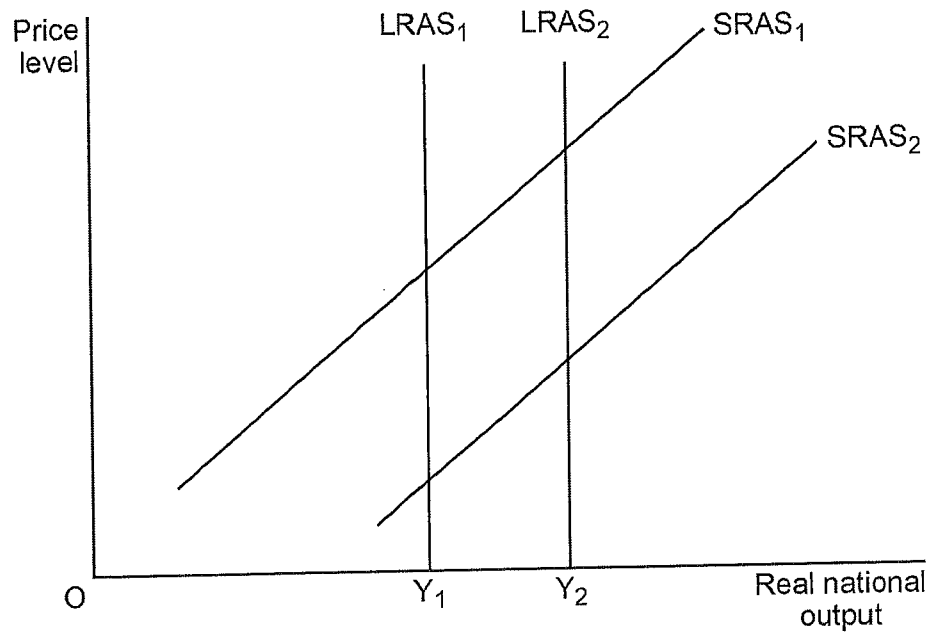
[1 mark]

Turn over for the next question



1 8

The diagram below shows two long-run aggregate supply (LRAS) and two short-run aggregate supply (SRAS) curves for an economy.



All other things being equal, which one of the following is most likely to explain the movement to the right of both the short-run and long-run aggregate supply curves?

- A** A large increase in the availability of renewable energy within the economy
- B** An increase in employment and a depreciation of the exchange rate
- C** An increase in the natural rate of unemployment and the level of money wage rates
- D** A supply-side shock to the economy which increases the rate of inflation

[1 mark]



1 9

The table below shows the average exchange rate and currency valuation estimates for four nations in comparison to the US Dollar in January 2016.

	Average exchange rate to US \$1	Currency valuation estimate
Australian Dollar	1.46	Undervalued by 24%
Brazilian Real	4.05	Undervalued by 32%
Chinese Yuan	6.57	Undervalued by 46%
Danish Krone	6.84	Undervalued by 12%

Which one of the following can be concluded from the data?

- A** The Australian Dollar has appreciated by 24% against the US Dollar.
- B** The Brazilian Real has been devalued by 32% against the US Dollar.
- C** The Chinese Yuan has depreciated the most against the US Dollar.
- D** The Danish Krone has the closest purchasing power parity to the US Dollar.

[1 mark]**2 0**

A firm benefits from significant and persistent economies of scale as it increases output. Which one of the following is the most likely consequence as it grows in size?

The firm's

- A** ability to set its own prices will increase.
- B** long-run average cost curve will become 'U' shaped.
- C** increasing profitability will attract many new entrants.
- D** total cost of production will decrease.

[1 mark]

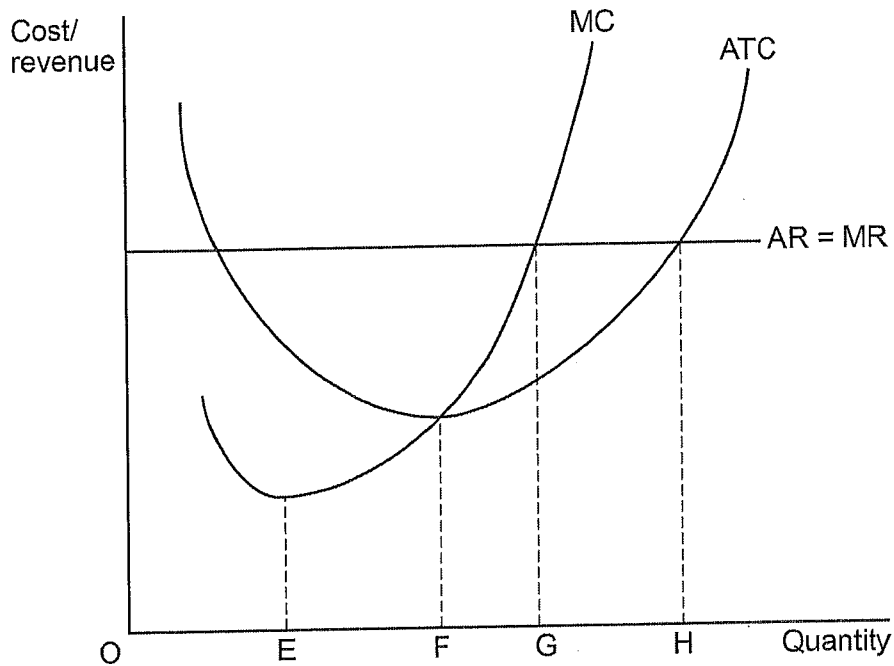
Turn over for the next question



2 1

The diagram below shows a firm operating in perfect competition in the short run.

Which quantity, **OE**, **OF**, **OG** or **OH**, indicates the output where profits are maximised?



- A OE
- B OF
- C OG
- D OH

[1 mark]

2 2

Which one of the following policies is most likely to have an immediate effect in helping to reduce the amount of poverty in the UK?

- A An increase in government subsidies for buyers of electric cars
- B A shift in the burden of taxation from direct to indirect taxes
- C Setting a price floor for basic foods
- D The introduction of a price ceiling for household energy

[1 mark]



2 | 3

The table below shows selected components of the UK balance of payments on current account as a percentage of GDP between 2011 and 2014.

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box*

Year	Balance of trade in goods and services	Primary income balance	Secondary income balance	Current account balance
2011	-1.6	1.3	-1.3	-1.6
2012	-2.0	0.1	-1.3	-3.2
2013	-2.0	-1.0	-1.5	-4.5
2014	-1.9	-1.8	-1.4	-5.1

It can be concluded from the data that between 2011 and 2014 the main reason for the rise in the current account deficit as a percentage of GDP was

- A GDP growing faster than the deficit on the current account.
- B the deficit on trade in goods increasing by more than the surplus on trade in services.
- C the deterioration in the primary income balance.
- D the growth in the deficit on the secondary income balance.

[1 mark]

2 | 4

Globalisation can make some product markets more contestable.

Which one of the following characteristics of globalisation is the most likely explanation for such an increase in contestability?

- A A reduction in protectionism
- B Greater synchronisation of economic cycles between countries
- C Higher levels of labour migration
- D The growth of employment in emerging market economies

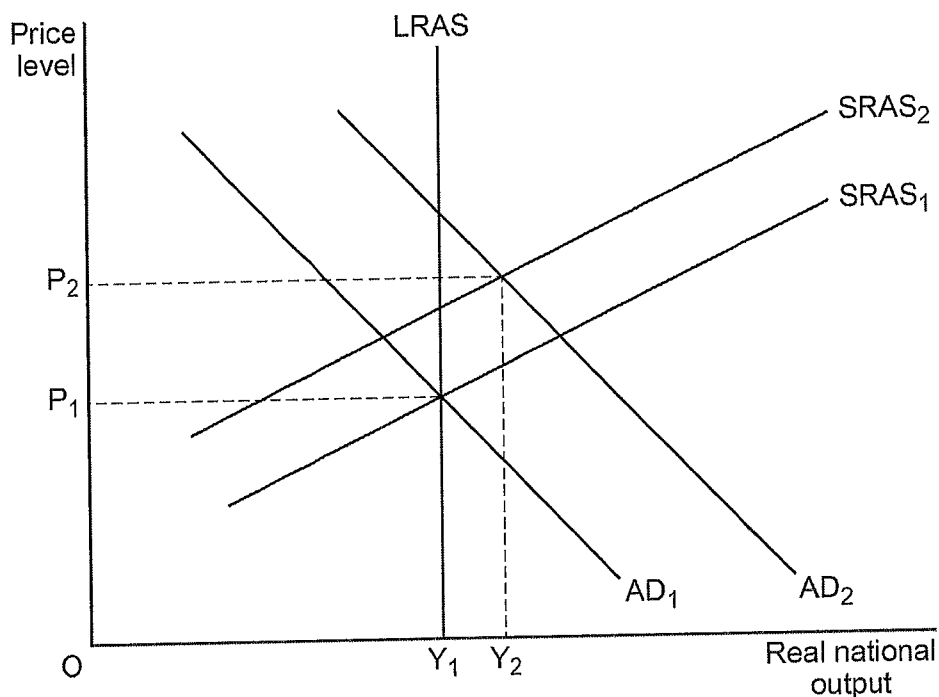
[1 mark]

Turn over for the next question



2 5

The diagram below shows two aggregate demand (AD) curves, two short-run aggregate supply (SRAS) curves, and the long-run aggregate supply (LRAS) curve for an economy.



The increase in the price level from P_1 to P_2 raises the rate of inflation above the target rate set by the government. In an attempt to bring inflation back to its target rate, the central bank announces a change in interest rates. Other things being equal, this is most likely to

A create upward pressure on the exchange rate.

B increase bond prices.

C make business loans more affordable.

D reduce the cost of servicing the national debt.

[1 mark]



2 | 6

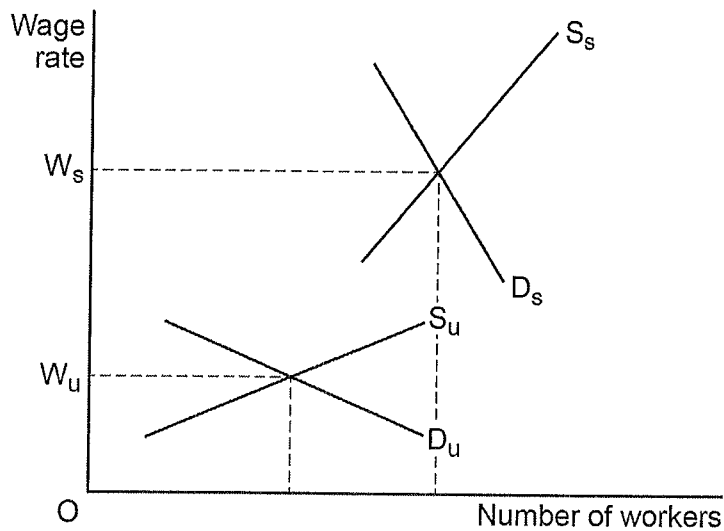
Which one of the following is most likely to measure the degree of competition in an oligopolistic industry?

- A The price elasticity of supply in the industry
- B The profitability of the 10 largest firms in the industry
- C The three firm concentration ratio
- D The value of the Gini coefficient

[1 mark]

2 | 7

The diagram below shows the demand and supply curves for skilled labour (D_s and S_s) and unskilled labour (D_u and S_u) and the wage differential ($W_s - W_u$) between the two types of labour.



All other things being equal, which one of the following is most likely to cause a decrease in the wage differential?

- A A fall in the demand for unskilled workers
- B A fall in the size of the labour force
- C An increase in the demand for skilled workers
- D An increase in the proportion of the labour force with a degree

[1 mark]

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2 8

In a labour market dominated by a monopsonist, wages and employment are usually lower than in a competitive labour market. This is because a monopsonist

- A employs workers up to the point where the marginal revenue product of labour is equal to the wage rate.
- B is a monopoly supplier of labour.
- C equates the marginal revenue product of labour with its marginal cost not the wage rate.
- D restricts output to raise the price of the product sold.

[1 mark]

2 9

Which one of the following is most likely to cause an increase in the structural budget deficit?

- A A fall in income tax receipts in the downturn of the economic cycle
- B A rise in government spending on unemployment-related benefits during a recession
- C A rise in healthcare expenditure and state pension provision due to an ageing population
- D A rise in spending on imports during an economic recovery

[1 mark]



3 0

The table below shows indices for real GDP and consumer prices in an economy over six quarters.

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Quarter	Index of real GDP	Index of consumer prices
1	106	100
2	105	105
3	104	111
4	105	116
5	107	120
6	110	123

During these six quarters the economy experienced

A deflation and a recession.

B disinflation when in recession.

C disinflation when recovering from recession.

D rising inflation when recovering from recession.

[1 mark]

30

Turn over Section B



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A-level ECONOMICS

Paper 1 Markets and market failure

Tuesday 6 June 2017

Afternoon

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is 7136/1.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **ONE** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER

Context 1

Total for this context: 40 marks

Privatisation of Royal Mail

Study **Extracts A, B and C** and then answer **all** parts of Context 1 which follow.

Extract A: UK parcels delivery market

Figure 1: UK parcels delivery market shares by revenue, 2015

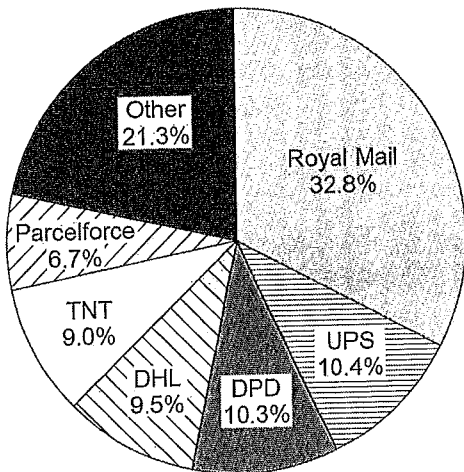
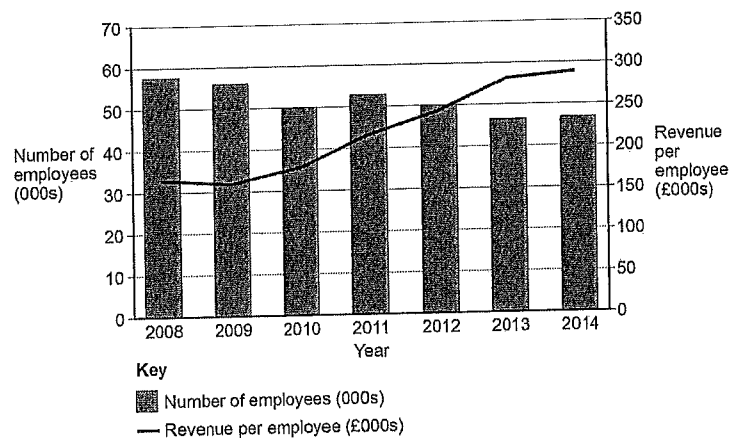


Figure 2: Employees and revenue per employee in the UK parcels delivery market



Source: Apex Insight Industry Report, 2015

Extract B: The privatisation of Royal Mail

Royal Mail has started a new chapter after the government ended 499 years of public ownership by selling off its remaining stake. Although critics have suggested that the government undervalued the company, total proceeds of the sale amount to £3.3 bn. The newly privatised company will have to cope with structural decline in the number of letters sent in the UK (Royal Mail has a near monopoly in this market), as well as fierce competition in the parcels delivery market, which is rapidly growing because of the growth of online shopping.

1

5

A review of Royal Mail is under way by the regulator Ofcom, triggered by concerns that the withdrawal of Whistl, a smaller rival in the door-to-door letters delivery market, means the postal operator has no competitive pressure to improve services and become more efficient. Ofcom is considering whether the price Royal Mail charges competing courier companies, such as Whistl or Amazon, to access its own delivery network are fair. It is also examining whether Royal Mail's Universal Postal Service obligations are reasonable. The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week, unlike its competitors. Some consumer organisations have claimed that increased competition in the parcel market has led to a worsening service for rural and remote consumers, including problems such as non-deliveries and lengthy journeys to collect undelivered items.

10

15

Competitive pressures on Royal Mail's profits may require the firm to cut costs. Pay negotiations with workforce representatives are set to begin but the powerful Communication Workers Union is likely to fight any redundancies. Analysts say that this could make it harder for management to find cash for investments to boost competitiveness. 20

Source: News reports, October 2015

Extract C: Technological innovation in the postal market

Parcel operators compete with Royal Mail both on price, and technological and service innovations. Many competitors are using digital technology to drive innovation, such as notifying customers within a 15-minute window of delivery or interactive services to redirect deliveries. The parcel delivery firm DPD has recently built Europe's largest parcel distribution centre, a £100 million facility in Leicestershire that hints at a future where technology largely replaces labour. In the main, people are only involved in unloading and loading, as well as monitoring operations. This investment reveals the transformation under way in the UK's £8.3 bn parcel delivery market, which is rapidly expanding in response to the sharp growth in online shopping. Three conveyor belts loop its warehouse, where a parcel can enter the system, be scanned and sent to one of 172 possible exit doors within 90 seconds. Once running at full capacity, the facility will be capable of sorting 70 000 items an hour and the company expects to process more than 1 million parcels on its busiest nights. 10

By contrast, at Royal Mail's national distribution centre, workers wait for metal cages to be filled with parcels before rolling them across the warehouse floor. However, changes are afoot as Royal Mail clings to its dominant share of the parcel market, with some distribution centres accepting dispatches from retailers on Sundays. Royal Mail is also introducing equipment such as 'finger scanners' that allow workers to pick up and scan parcels more efficiently, as well as handheld smart devices for 76 000 frontline staff at a cost of £130 million. 15

Source: News reports, December 2015

0 1 Using the data in **Extract A (Figure 1)**, calculate the three-firm concentration ratio in the UK parcels delivery market. Give your answer, as a percentage, to **one** decimal place. [2 marks]

0 2 Explain how the data in **Extract A (Figure 2)** show that the UK parcels delivery market is displaying dynamic efficiency. [4 marks]

0 3 **Extract B** (lines 12–14) states that 'The Universal Postal Service obligations require Royal Mail to deliver letters and parcels to all parts of the country six days a week'.

With the help of a monopoly diagram, explain how the Universal Postal Service obligations are likely to affect Royal Mail's costs **and** profits. [9 marks]

0 4 **Extract C** (line 2) states that 'Many competitors are using digital technology to drive innovation'.

Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition. [25 marks]

Turn over ►

Do **NOT** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

The gender pay gap

Study Extracts D, E and F and then answer all parts of Context 2 which follow.

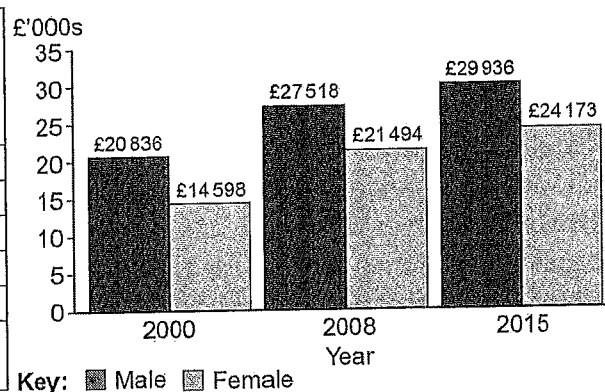
Extract D

Figure 3: Differences between male and female wages and employment in selected countries

Selected countries	Wage gap (%)	Female labour force participation rate (%)	Male labour force participation rate (%)
Japan	27	66	85
Norway	15	76	80
Slovenia	3	67	74
UK	18	72	83
USA	17	67	78
OECD* average	17	68	80

Source: Official statistics, 2016

Figure 4: Full-time annual earnings before tax, UK, 2000 to 2015



Source: Official statistics, 2016

*The OECD is the Organisation for Economic Co-operation and Development.

Extract E: Causes of the gender pay gap

Since the Equal Pay Act 1970, it has been illegal to pay men and women differently for the same work. Despite this, the overall pay gap is 19.2%, according to the Office of National Statistics. The pay gap for full-time workers is lower, at 9.4%, and the gap for part-time workers is actually negative, at -6.5%. In the UK, 41% of female workers are part-time, compared to only 11% of males. 1

Prior to the Equal Pay Act, it was common to find firms paying women less than men for comparable work, but since then discriminatory attitudes have lessened to the extent that some economists deny that the wage gap is a problem at all. A recent report found that women working in the same job, and at the same level, are paid just 0.8% less than their male equivalents. Certainly, the pay gap has been shrinking, partly due to demographic and social changes. In earlier times, most senior, highly paid jobs were held by men, while women of the same generation stayed at home. The Government claims that 2.2 million women who are not working want to work. They believe that increasing the female labour force participation rate could add 10% to the size of our economy by 2030, as well as benefiting women directly. 10

Interestingly, women in their twenties currently out-earn men and it is only when they reach their thirties, and perhaps start a family, that the pay gap starts to emerge. Is this due to employers undervaluing female staff once they have had a baby, or to outdated social conventions that women should be the main childcarers? Most of the highest paid jobs in 15

finance, engineering, science and technology are predominantly populated by men, while most of the lowest paid jobs, like caring and hospitality, are largely done by women. 80% of those working in the low paid care and leisure sector are women, compared to only 10% in the better paid skilled trades. The tendency for women to participate in low-productivity sectors is now a bigger factor in their low pay than discrimination. 20

Source: News reports, April 2016

Extract F: Tackling the gender pay gap

In 2016, the UK Government unveiled plans for a league table ranking firms by their gender pay gap. Companies with more than 250 employees will have to disclose how the salaries of their male and female staff differ. The Government hopes that this league table, of around 8 000 firms, will draw attention to the worst culprits. The Chartered Management Institute commented that shining a light on what men and women are paid at every level...is proven to speed up progress and would boost business productivity. But the Confederation of British Industry have warned that rankings unfairly name and shame firms as data will only be able to present a partial picture, given factors such as the mix of part-time and full-time working. 1 5

Trade unions have also questioned whether information alone is sufficient to bring about change. Unions have a role in supporting women to achieve promotions, negotiate better pay and obtain flexible working practices, such as part-time work, homeworking, paternity leave and on-site crèches. Should the government policy be to encourage women to join trade unions? Some economists suggest that the gender pay gap is halved for women who are union members compared to those who are not. Other suggestions include raising National Minimum Wage rates to increase the incomes of low-paid women and to encourage firms to appoint women to company boards. Women hold only 23.2% of posts on the boards of directors of large British firms, whereas Norway requires that large companies fill 40% of board positions with women. The UK Government recognises the need to raise aspirations and attainment for girls. The last decade has seen successful initiatives promoting traditionally male academic courses and careers to girls and young women. 10 15 20

Source: News reports, February 2016

0 5

Using the data in **Extract D (Figure 3)**, calculate the mean female labour force participation rate for the five countries listed. Give your answer to **one** decimal place.

[2 marks]

0 6

Explain how the data in **Extract D (Figure 4)** show that the degree of inequality between the pay of male and female workers is falling.

[4 marks]

0 7

Extract E (lines 22–23) states that ‘The tendency for women to participate in low-productivity sectors is now a bigger factor in their low pay than discrimination’.

With the help of a diagram, explain how the difference between the marginal revenue product of male and female workers might account for the lower average earnings of women.

[9 marks]

0 8

Extract F (lines 19–20) notes that ‘The UK Government recognises the need to raise aspirations and attainment for girls’.

Use the extracts and your knowledge of economics to evaluate the policies that government might use to reduce the gender pay gap.

[25 marks]

Turn over ►

Section B

Answer **ONE** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

Roughly £18bn is forecast to be spent in the UK on advertising in 2017. Much of this will be spent by monopolistically competitive firms or oligopolies seeking to differentiate the products they sell to consumers.

0	9
---	---

Explain how price and output are determined for a firm in a monopolistically competitive market, in both the short run and the long run.

[15 marks]

1	0
---	---

Evaluate the view that government regulation of monopolistically competitive markets is unnecessary, and that policies to encourage competition and prevent the abuse of monopoly power should focus entirely on oligopolies and monopolies.

[25 marks]

OR**Essay 2**

Attempts by governments to equalise incomes are well-intentioned but counter-productive. They destroy incentives for people to lift themselves out of poverty.

1	1
---	---

Explain the main causes of poverty in the UK.

[15 marks]

1	2
---	---

To what extent can the problem of poverty in the UK be solved through the operation of market forces? Justify your answer.

[25 marks]

OR

Essay 3

In 2018, the UK Government will impose a new tax on sugary drinks, aimed at tackling obesity. Behavioural economists believe that taxation alone is unlikely to be very effective in reducing consumption. By 2050, obesity is predicted to affect 60% of adult men, 50% of adult women and 25% of children. It is associated with a range of health problems including type 2 diabetes, cardiovascular disease and cancer.

1	3
---	---

 Explain why, in a free market, sugary drinks may be overconsumed.

[15 marks]

1	4
---	---

 Evaluate the view that imposing a tax is the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink.

[25 marks]

END OF QUESTIONS

There are no questions printed on this page

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A-level ECONOMICS

Paper 2 National and international economy

Tuesday 13 June 2017

Afternoon

Time allowed: 2 hours

Materials

For this paper you must have:

- an AQA 12-page answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- You will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Context 1

Total for this context: 40 marks

Economic development in India

Study Extracts A, B and C and then answer all parts of Context 1 which follow.

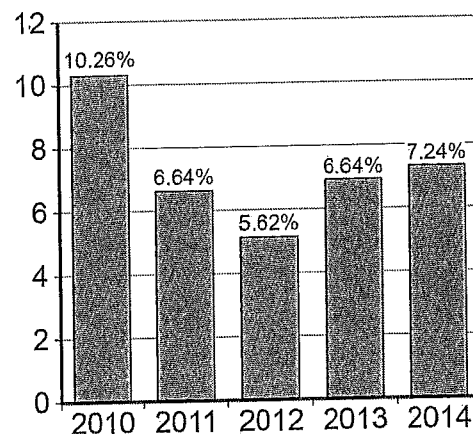
Extract A

Figure 1: India's Human Development Index (HDI) trends, 1980 to 2014

Year	Life expectancy at birth	Expected years of schooling	GNI per capita (2011 PPP \$)	HDI value
1980	53.9	6.4	1 255	0.362
1990	57.9	7.7	1 754	0.428
2000	62.6	8.5	2 522	0.496
2010	66.5	11.1	4 499	0.586
2014	68.0	11.7	5 497	0.609

GNI = gross national income
 PPP = purchasing power parity

Figure 2: India's real GDP growth rate, 2010 to 2014



Source: Official statistics, 2015

Extract B: Is India still a developing country?

Every region of the world has seen improvements in its HDI and India, in particular, has seen major changes. Job creation is a key aspect of development. However, 95% of all workers in India are in informal employment where there is no monitoring or taxation. Nearly 120 million more workers will enter the Indian labour force over the next 10 years seeking manufacturing jobs but, so far, these jobs have not appeared. Manufacturing still counts for less than 20% of all jobs and more than half of all workers are in low productivity agriculture. The large amount of informal employment also reduces tax receipts, which limits the amount the Indian government can spend to improve the economy.

1

5

India is still a very poor country with low per capita income, widespread destitution, hunger and malnutrition. Moreover, it has poor health facilities, housing and infrastructure as well as slowly expanding education and a strong reliance on foreign aid. Despite the emergence of a rising middle class, inequality is growing and the majority of the population lack basic social and economic rights. The Indian government must find a way to do more to provide for its citizens. However, when the government has intervened in the economy, it has often resulted in failure. Some say the Indian government should adopt the Chinese model of export-led industrialisation.

10

15

Until the early 1990s, India was a closed economy: average tariffs exceeded 200%, quotas on imports were extensive and there were restrictions on foreign investment. India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth. In the past, nearly all advanced economies have benefited from protectionist policies, why should India be any different?

20

Source: News reports, 2016

Extract C: 'Make in India' – the road to development?

India has steadily opened up its economy and reduced regulations that have sometimes held it back. More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation. These may be risky strategies as India lacks the infrastructure that most of its global competitors have. 1

Trade reforms do appear to have produced remarkable results. India's trade, as a percentage of GDP, has increased from 15% to 40% between 1990 and 2014, and the economy is now among the fastest growing in the world. In more recent years, the Indian government's stand on trade and investment policy has displayed a shift from protecting producers to benefiting consumers. 'Make in India' is an initiative to encourage multinational companies to manufacture their products in India and shift Indian employment from the unstable primary sector to the secondary sector. 5 10

Recently, there has been a promise by foreign companies to invest \$222 billion in India. When foreign companies come to a 'Make in India' event, they see an economy that is growing at 7% annually with a large well-educated and skilled workforce. However, problems persist with regulation and tax. In the World Bank's Doing Business Index, which indicates how easy it is to set up and run a business, India is ranked 130th out of 189 countries. The question still remains, is the road to a more developed India one which involves the free market and liberalisation of trade, or one which involves government intervention and protectionism? 15

Source: News reports, 2016

0 1

Using the data in **Extract A (Figure 2)**, calculate, to **two** decimal places, the mean growth rate for India from 2010 to 2014.

[2 marks]

0 2

Explain why the data in **Extract A (Figure 1)** show that living standards in India have improved.

[4 marks]

0 3

Extract B (lines 17–19) states 'India still protects its economy with anti-dumping measures and export subsidies that are designed to promote economic growth.'

With the help of a diagram, explain how export subsidies may help promote economic growth in India.

[9 marks]

0 4

Extract C (lines 2–3) states 'More recently, India has begun to use more market-based strategies to help its development, including liberalising trade and privatisation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that greater use of market-based strategies is the best way to improve the economic development of India.

[25 marks]

Turn over ►

Do not answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

Inflation, deflation and economic policy

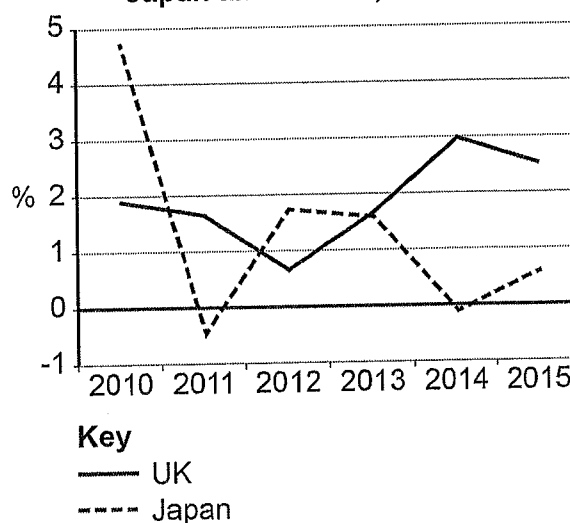
Study Extracts D, E and F and then answer all parts of Context 2 which follow.

Extract D

Figure 3: CPI inflation rates (%) for Japan and the UK, 2010 to 2015

Year	Japan	UK
2010	-0.72	3.29
2011	-0.28	4.48
2012	-0.03	2.83
2013	0.36	2.56
2014	2.75	1.46
2015	0.80	0.05

Figure 4: Real GDP growth rates (%) for Japan and the UK, 2010 to 2015



Source: Official Statistics

Extract E: Good and bad deflation

Deflation is bad when it is the result of falling aggregate demand. Consumers buy fewer goods and services and firms cut prices whilst consumption and investment decisions are delayed. This can lead to worsening company profits, cost cutting and job losses. Less spending damages economic growth and could lead to a deflationary spiral. However, this has not been the UK's recent experience. A glut in the supply of oil has driven down its price. This has had a positive effect on most businesses who face lower costs. In the retail sector, in particular, prices are lower because goods are cheaper to manufacture and transport. Businesses can also spend more on investment, hiring staff or offering pay rises. This has led to pay growth and productivity gains in the private sector after years of stagnation. Improvements in productivity on the supply side of the economy could actually lead to more deflation but this could be viewed as good deflation. 10

Professor Steve Keen believes even mild deflation is bad news. If the government continues with its programme of austerity, he is convinced the UK is heading for bad deflation. "Deflation is only benign, or even beneficial, in a world in which no one has any debt. Bizarrely, this is the world that conventional economists actually imagine we live in, since their models have ignored debt. Deflation increases the burden of people's debt, which is what happened in the 1930s, during the Great Depression." 15

The most immediate implication of continued deflation is that it makes a rise in interest rates less likely and, in the short term, this is good news for borrowers, but not for savers. This should also allow more time for the economy to recover, with low interest rates helping consumers and firms to access cheaper credit. 20

Source: News reports, 2016

Extract F: The Japanese problem

If the UK wishes to see another economy's experience of when deflation turns bad, then it only needs to look at Japan. Over the last two decades, Japan has used a variety of policies in an attempt to overcome deflation. For almost 20 years, the Bank of Japan's main interest rate has hovered around 0% and at times been negative. Japan has embarked on several fiscal stimulus programmes, although with a debt to GDP ratio of 245% in 2015, some see this as a worry. Furthermore, the Bank of Japan is currently carrying out quantitative easing equivalent to approximately £500bn per year. So far, the Japanese economy has not escaped from the risk of deflation.

So what can the UK learn from Japan? For much of 2015, CPI inflation in the UK was at, or very close to, 0%. Consumer spending is fairly robust at the moment but if economic agents anticipate falling prices, they may begin to factor this into their expectations. This could lead to bad deflation which can be very difficult to tackle effectively.

In recent times, the UK has arguably seen a stronger recovery than many other developed economies, although there is uncertainty over what should be done to maintain this in the future. After the financial crisis of 2007/08, UK Bank Rate was reduced to an historic low of 0.5%, and although it has since been cut to 0.25%, there is little scope to reduce it much further. The Bank of England has also used quantitative easing to try to stimulate the economy. However, the results of this are debatable. In terms of fiscal policy, the current government appears to be determined to continue with its austerity programme. What is not clear is what should be done if low inflation turns to bad deflation.

Source: News reports, 2016

0	5
---	---

Using the data in **Extract D (Figure 3)**, calculate, to **two** decimal places, the mean inflation rate for Japan from 2010 to 2015.

[2 marks]

0	6
---	---

Explain how the data in **Extract D (Figure 4)** show that Japan has been less successful than the UK in achieving a stable rate of economic growth.

[4 marks]

0	7
---	---

Extract E (lines 9–10) states 'Improvements in productivity on the supply side of the economy could actually lead to more deflation.'

With the help of a diagram, explain how improvements in productivity could cause deflation.

[9 marks]

0	8
---	---

Extract F (lines 19–20) states 'What is not clear is what should be done if low inflation turns to bad deflation.'

Using the data in the extracts and your knowledge of economics, evaluate the view that monetary policy is the most effective way of tackling deflation in developed economies such as the UK and Japan.

[25 marks]

Turn over ►

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

Between 2011 and 2016, UK unemployment fell from a high of 8.5% to 4.8%. Some argue that government attempts to reduce unemployment inevitably lead to trade-offs with other macroeconomic policy objectives.

0	9
---	---

 Explain how government policies can reduce the natural rate of unemployment. **[15 marks]**

1	0
---	---

 Discuss the view that falling unemployment will inevitably lead to trade-offs with other macroeconomic policy objectives. **[25 marks]**

OR**Essay 2**

The UK has seen significant changes in its pattern of trade with the rest of the world in terms of what we trade and with whom. The UK's current account deficit widened from £29.1bn in 2011 to £100.2bn in 2015. The deficit in 2015 was 5.4% of GDP, the largest annual deficit as a percentage of GDP since records began in 1948.

1	1
---	---

 Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world. **[15 marks]**

1	2
---	---

 Evaluate the measures that might be taken to reduce a deficit on the current account of the UK's balance of payments. **[25 marks]**

OR

Essay 3

The Government has ruled out the possibility of a rise in VAT before 2020 but other indirect taxes may increase. It has also stated that the personal income tax allowance will be increased from £10 800 in 2015/16 to £12 500 by 2020, and plans to cut the main rate of corporation tax from 20% to 17%.

1 3

Explain how changes in both government spending **and** taxation might affect the level of economic activity.

[15 marks]

1 4

Evaluate the economic consequences for the UK economy of a significant shift in the burden of taxation from direct taxes to indirect taxes.

[25 marks]

END OF QUESTIONS

Turn over ►

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A-level ECONOMICS

Paper 3 Economic principles and issues

Insert

The march of the makers – does manufacturing matter?

- **Extract A:** Manufacturing in the UK
- **Extract B:** Trends in UK manufacturing
- **Extract C:** Whatever happened to the march of the makers?
- **Extract D:** Another blow to UK manufacturing as job losses are announced in the steel industry

Extract A: Manufacturing in the UK

The UK manufacturing sector is diverse, with activities ranging from aerospace, pharmaceuticals, chemicals and the automotive industry to food and drink. However, most manufacturing firms are small. Firms that are large, and often foreign-owned, generate most of the value-added in the manufacturing sector and dominate research and development. In recent years, the relative share of manufacturing in the UK economy has declined more rapidly than in other developed economies, from 30% of GDP in the early 1970s to below 10% in 2015. While manufacturing output has grown, the service sector has grown at a faster rate. This 'deindustrialisation' has also applied to UK manufacturing employment, with numbers reducing at a faster rate than in other advanced economies, from close to 9 million people in 1966 to around 2.6 million in 2015.

Source: News reports, April 2016

Extract B: Trends in UK manufacturing

Figure 1: Index of manufacturing output 2003 to 2015, 1997 = 100



Figure 2: Manufacturing employment Jan–Mar 2003 to Oct–Dec 2015, thousands

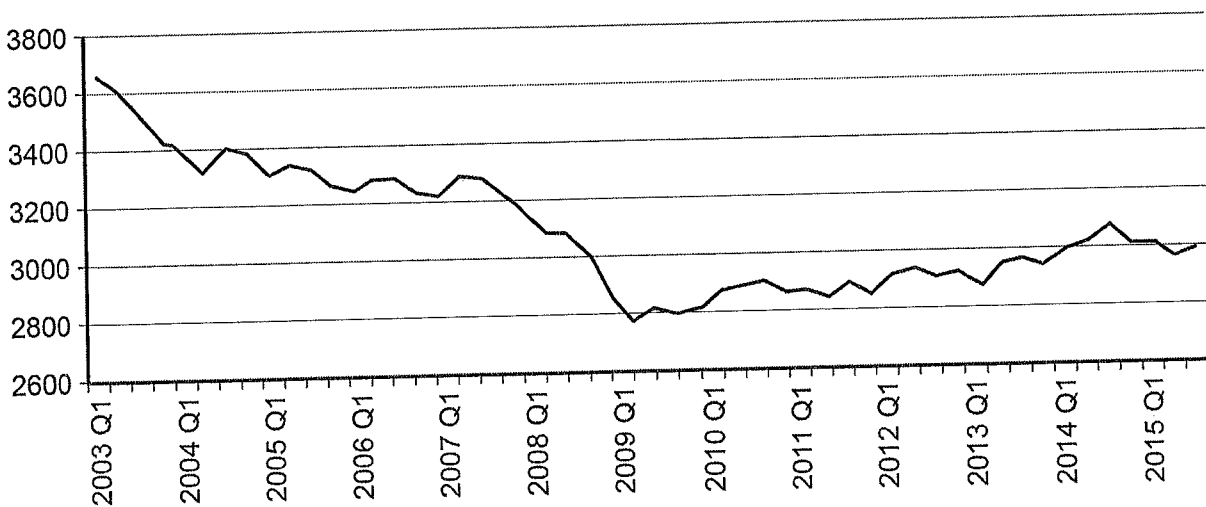


Figure 3: Value of UK trade in goods 2003 to 2015, £ billion at current prices

Year	Exports	Imports	Balance
2003	188.5	239.5	-51.0
2004	191.6	253.5	-61.9
2005	212.1	282.2	-70.1
2006	244.0	322.9	-78.9
2007	223.0	313.5	-90.5
2008	254.6	349.6	-95.0
2009	229.1	315.7	-86.6
2010	270.2	367.6	-97.4
2011	308.2	401.7	-93.5
2012	304.3	410.8	-106.5
2013	306.2	421.5	-115.3
2014	293.7	416.9	-123.2
2015	285.6	410.7	-125.1

Figure 4: Annual average rate of growth in UK manufacturing output and real GDP, 1949 to 2015

Years	Average rate of growth of UK manufacturing (%)	Average rate of growth of UK real GDP (%)
1949 – 1973	3.4	3.4
1974 – 1992	0.1	1.9
1993 – 2007	0.9	3.0
2008	-2.8	-0.5
2009	-9.4	-4.2
2010 – 2015	1.1	2.0

Source: Official statistics for all data in Extract B

Turn over for Extract C

Turn over ►

Extract C: Whatever happened to the march of the makers?

Chancellor George Osborne, in his 2011 Budget speech, set out his aspiration for “a Britain carried aloft by the march of the makers”. Part of his vision for the future was an economy with a more prominent role for manufacturing; but was the Chancellor's hope ever realistic? 1

The UK is not alone in experiencing a declining share of manufacturing. At 11%, according to World Bank data in 2014, the output of UK manufacturing as a percentage of GDP was the same as France, ahead of Norway and Australia and just behind the US. However, many other countries have much larger manufacturing sectors; for example, manufacturing output is more than 20% of GDP in Germany and 30% in South Korea. China's share of manufacturing has fallen from 42% of GDP in 1981 to 36% now. Over the years, most of the rich nations have seen their manufacturing shares decline as the service sector has grown faster. 5 10

According to economists, there are some fundamental forces at work. Part of the decline in manufacturing output can be explained by the fact that the income elasticity of demand for services is generally higher than for many manufactured goods.

There has also been competition from other rich countries and from newly emerging economies. Because of competition from low-wage economies such as China, UK firms have had to abandon the production of low-cost, labour-intensive manufactured goods. Even in industries where manufacturing output has increased, changes in technology and improvements in productivity have led to a fall in employment. Generally, it is not as easy to improve productivity in the service sector. 15

This does not mean that there is no future for manufacturing in the UK. There has been a revival in British car making, but there have also been some setbacks, notably to steel producers, which could damage other areas of the economy. 20

The leader of the Trades Union Congress, Frances O'Grady, as well as criticising the government's response to the crisis affecting the steel industry, described manufacturing as one of Mr Osborne's failures. “If the government had made the right choices with strong investment in skills, infrastructure and innovation, we could be in a much stronger position”, she said. 25

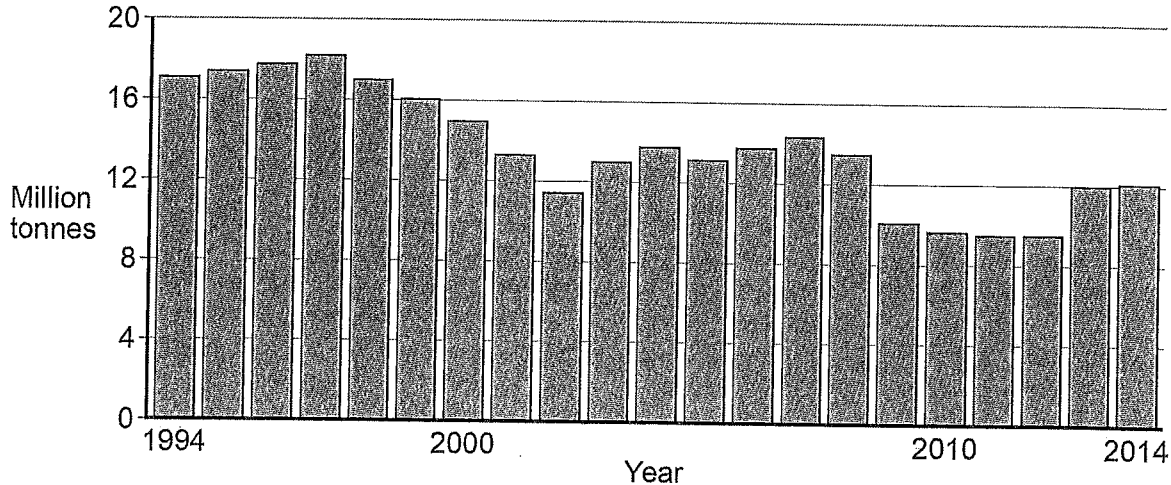
Source: BBC News Online, January 2016

Extract D: Another blow to UK manufacturing as job losses are announced in the steel industry

Tata Steel, part of an Indian-owned conglomerate that includes Jaguar Land Rover, has confirmed that it is to cut 1050 jobs in the UK, including 750 at Port Talbot, the UK's biggest steel works. The Port Talbot plant is said to be losing £1 million per day. These jobs cuts will take the number of steel jobs lost since the summer to more than 5000 out of a total of about 30 000.

1

Figure 5: Steel production in the UK, 1994–2014



Weak growth in China has meant that the demand for steel has fallen, encouraging Chinese producers to look for markets abroad. Some have accused China of dumping steel on world markets. In 2015, the European Union imposed anti-dumping tariffs for 6 months on some steel imports from China, but many commentators say more needs to be done. The UK steel industry has also been hit by a strong pound, high electricity prices and increased costs due to the government's climate change policies.

5

In the summer of 2015, the sterling exchange rate index reached a seven-year high but has fallen recently; this depreciation in the value of the pound may provide some relief to the struggling UK steel industry.

10

Steel is vital for many essential products including buildings, vehicles and refrigerators. The problems in the steel industry will affect other related sectors and some of the less prosperous regions of the country. The industry believes that the government needs to do much more to protect steel making in the UK. They have argued for lower business rates, a relaxation of carbon emission targets, compensation to offset high UK energy prices and a commitment that UK steel is used in major construction projects.

15

However, others believe that intervention by governments to support sectors of the economy where the UK no longer has a comparative advantage leads to higher taxes and imposes costs on other more efficient firms. Cheap steel benefits the UK economy and they believe that firms and not governments should decide which goods and services are produced in the UK.

20

Source: News reports, April 2016

END OF EXTRACTS

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Centre number

Candidate number

Surname _____

Forename(s) _____

Candidate signature _____

A-level ECONOMICS

Paper 3 Economic principles and issues

Monday 19 June 2017

Afternoon

Time allowed: 2 hours

Materials

For this paper you must have:

- the insert
- a calculator.

Instructions

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

Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	



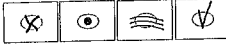


Section A

Answer **all** questions in this section.Only **one** answer per question is allowed.

For each answer completely fill in the circle 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

Economic decision making and policies are influenced by value judgements because

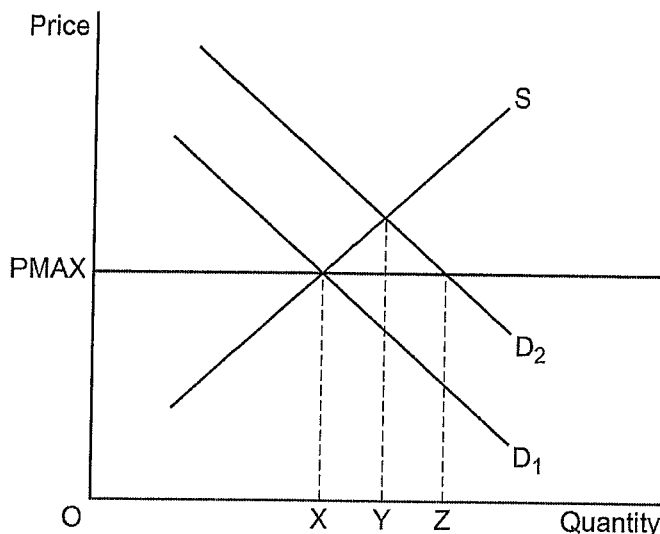
- A** all people are motivated by the desire to maximise their incomes. 
- B** economic analysis and decision making is assumed to be based on complete information. 
- C** they are based on the same methodology as the natural sciences. 
- D** they involve moral and political considerations as well as positive analysis. 

[1 mark]



0 2

The diagram below shows the original market demand and supply curves (D_1 and S) for loft insulation. Loft insulation reduces energy consumption.



The government wishes to meet its energy efficiency target by shifting the market demand curve for loft insulation from D_1 to D_2 . Which one of the following policies is most likely to enable the government to achieve its objective?

- A** A decrease in the rate of VAT on domestic gas and electricity used for home heating
- B** A 'nudge' to households to install loft insulation by offering to clear lofts of unwanted items if insulation is installed
- C** The introduction of a maximum price for loft insulation
- D** The introduction of a subsidy paid to the firms installing loft insulation

[1 mark]

0 3

The law of diminishing marginal utility states that

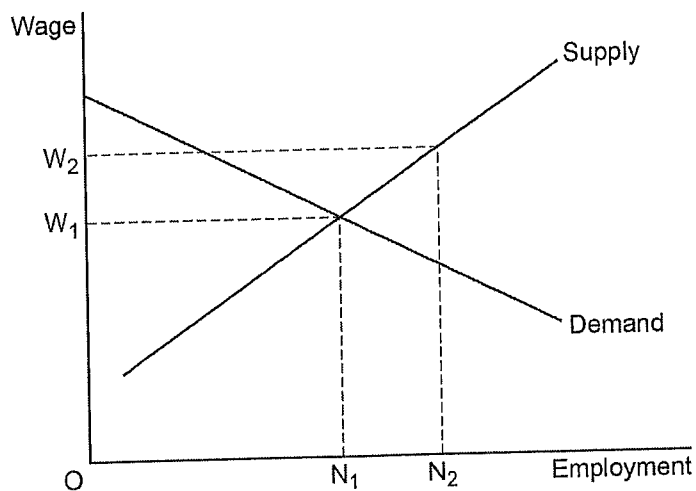
- A** as more of a product is consumed, the extra satisfaction will decline.
- B** as more of all factors are employed, the additional output produced will fall.
- C** as more variable factors are added to a fixed factor, the additional output produced will decline.
- D** the total satisfaction from consuming a product will be maximised when marginal utility starts to fall.

[1 mark]



0 4

The diagram below shows the market for bricklayers.



The original equilibrium wage is W_1 and the number of bricklayers employed is N_1 . Which one of the following events is most likely to increase the wage paid to bricklayers to W_2 and increase employment to N_2 ?

- A** A cut in bank rate leading to a fall in mortgage interest rates
- B** A fall in the number of young people training as apprentice bricklayers
- C** An improvement in working conditions in the construction industry
- D** An increase in the wages paid to electricians in the construction industry

[1 mark]



0 5

A firm employs three factors of production: capital, land and labour. The table below shows how the firm's output is affected by changing the amount employed of these factor inputs.

Units of output	Units of capital	Units of land	Labour (Number of workers)
500	20	40	60
1000	80	160	240
2000	140	280	420
3000	210	420	630
4000	300	580	860

The firm experiences constant returns to scale when it increases its output from

- A 500 to 1000 units.
- B 1000 to 2000 units.
- C 2000 to 3000 units.
- D 3000 to 4000 units.

[1 mark]

0 6

The table below shows possible differences between the meanings of the terms invention and innovation. Which combination, A, B, C or D, correctly identifies the difference between the meanings of these terms?

	Invention	Innovation	
A	Applies to changes in goods only	Applies to changes in services only	<input type="radio"/>
B	Applies to changes in services only	Applies to changes in goods only	<input type="radio"/>
C	Discovering something entirely new	Turns the results of invention into a product	<input type="radio"/>
D	Turns the results of innovation into a product	Discovering something entirely new	<input type="radio"/>

[1 mark]

Turn over for the next question



0 7

The table below shows the output, average total cost and average revenue for a firm.

Units of output	Average total cost (£)	Average revenue (£)
10	15	26
11	14	24
12	13	23
13	12	21

At which one of the following levels of output will the firm maximise its profits?

A 10 units

B 11 units

C 12 units

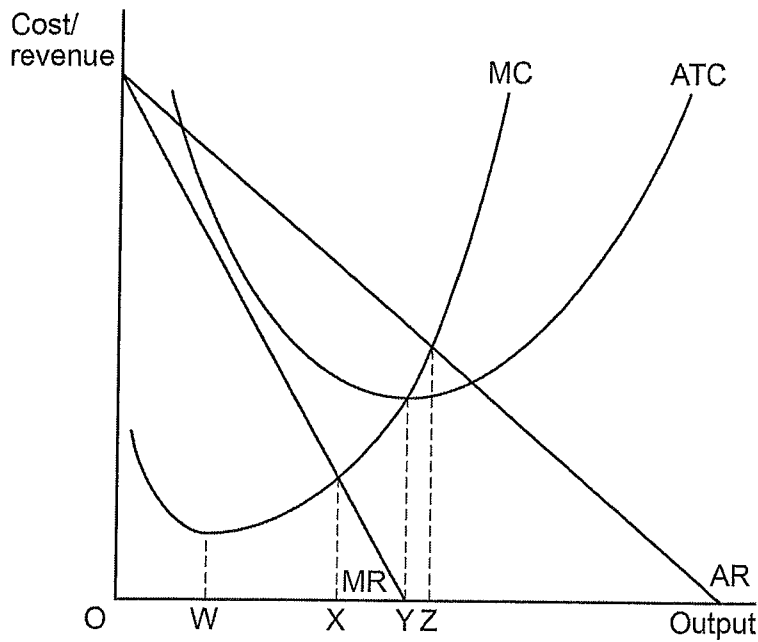
D 13 units

[1 mark]



0 8

The diagram below shows the cost and revenue curves for a monopoly.



At which one of the following levels of output would the firm be productively efficient?

- A OW
- B OX
- C OY
- D OZ

[1 mark]

0 9

The marginal revenue product of labour is the

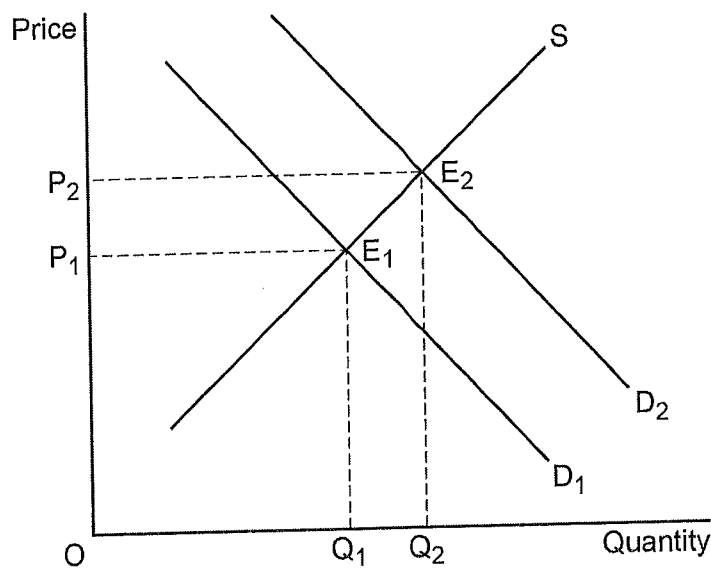
- A addition to total revenue when the firm produces and sells an extra unit of output.
- B amount produced per worker per time period.
- C change in total output that is produced when one extra worker is employed.
- D revenue gained by selling the extra output produced by employing one more worker.

[1 mark]



1 0

The diagram below shows the demand curves (D_1 and D_2) and the supply curve (S) in the market for good X. The initial market equilibrium is at E_1 .



The increase in market demand from D_1 to D_2 results in a new market equilibrium at E_2 . The market mechanism that leads to the establishment of the new equilibrium is based on

- A excess demand for good X at the initial price of P_1 .
- B excess demand for good X at the new price P_2 .
- C excess supply of good X at the initial price of P_1 .
- D excess supply for good X at the new price P_2 .

[1 mark]

1 1

Which one of the following values for the Gini coefficient shows the greatest inequality?

- A -0.5
- B 0
- C 0.5
- D 1

[1 mark]



1 2

The tragedy of the commons can be applied to the fishing industry. What is the nature of this market failure?

- A Over-fishing resulting in declining fish populations
- B The imposition of fishing quotas by the European Union
- C The positive externalities associated with fish consumption
- D The third-party effects on dolphins as a result of tuna fishing

[1 mark]

1 3

Immobility of labour may lead to a misallocation of resources and market failure because

- A a change in the pattern of demand results in structural unemployment.
- B the education and training needed to reduce labour immobility is a public good.
- C the government's target for the rate of inflation is too high.
- D the immobility of factors of production is a negative externality in production.

[1 mark]

1 4

The following table shows the real GDP of an economy from 2012 to 2016.

Year	2012	2013	2014	2015	2016
Real GDP (£bn)	213	215	245	256	271

If the figures were converted to index form with 2013 as the base year, what would be the value of the index (to the nearest whole number) in 2016?

- A 124
- B 125
- C 126
- D 127

[1 mark]



1 5

The information below shows the changes in key economic indicators for a country over a period of one year.

Money GDP	Rate of inflation	Population increase	Gini coefficient
+6%	+4%	+1%	-8%

Which one of the following can be concluded from the data?

- A External costs generated from economic activity have reduced the quality of life
- B Real GDP per capita has fallen
- C The distribution of income has become more unequal
- D The standard of living of typical residents in the country has probably improved

[1 mark]

1 6

Assuming that the value of the marginal propensity to consume is 0.6, which of the following changes in national income would result from an increase in exports of £19bn?

- A £31.7bn
- B £47.5bn
- C £76bn
- D £114bn

[1 mark]



1 7

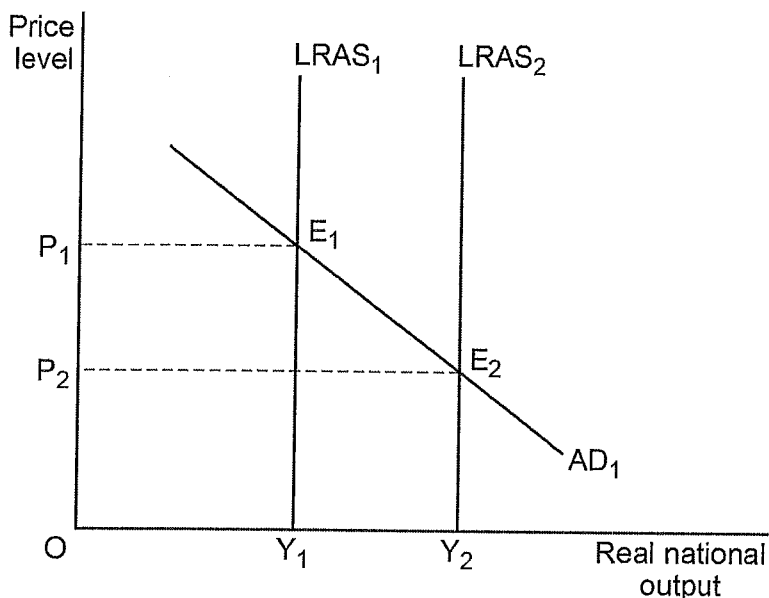
The primary measure of unemployment in the UK is based on the

- A number of people joining the labour force minus the number of people leaving the labour force.
- B number of people not working who are of working age.
- C the number of people actively seeking work and available to start work.
- D proportion of the population of working age without a job.

[1 mark]

1 8

The diagram below depicts an aggregate demand (AD) curve and two long-run aggregate supply (LRAS) curves for an economy. The economy's initial equilibrium is at E_1 .



All other things being equal, the movement of the economy from its initial equilibrium at E_1 to E_2 is most likely to be caused by an increase in

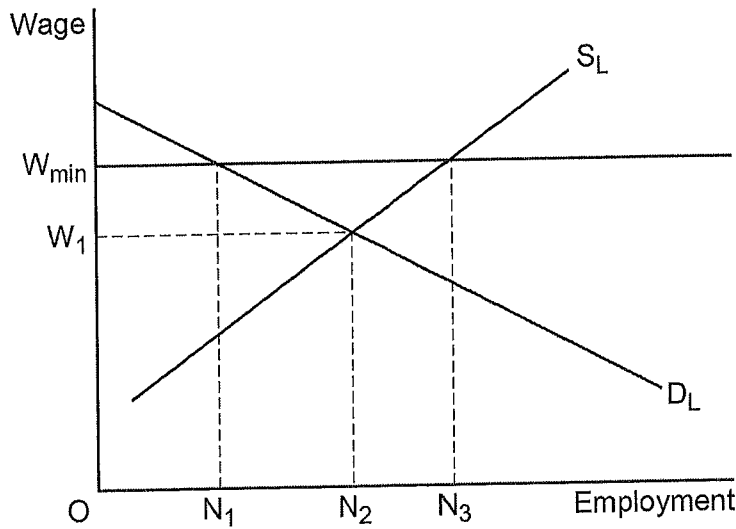
- A government borrowing.
- B labour productivity.
- C the rate of deflation.
- D money wage rates.

[1 mark]



1 9

The diagram below represents the market for unskilled agricultural labourers where the demand for agricultural labourers is D_L and the supply is S_L . The trade union representing agricultural labourers has negotiated a minimum wage of OW_{min} for its members.



The effect of implementing a minimum wage of OW_{min} is that

- A cyclical unemployment increases by $(ON_3 - ON_1)$.
- B frictional unemployment increases by $(ON_2 - ON_1)$.
- C real wage unemployment increases by $(ON_3 - ON_1)$.
- D the natural rate of unemployment increases by $(ON_2 - ON_1)$.

[1 mark]

2 0

A bank makes a new loan to a customer. All other things being equal, which combination of events, **A**, **B**, **C** or **D**, shows what will happen?

	Bank's liabilities	Bank's assets	Money supply	
A	Increase	Increase	Increases	<input type="checkbox"/>
B	Increase	Fall	Increases	<input type="checkbox"/>
C	Fall	Increase	Falls	<input type="checkbox"/>
D	Fall	Fall	Falls	<input type="checkbox"/>

[1 mark]



2 | 1

A government issued bond has a nominal value of £100 and the annual coupon is £6. The bond has 35 years until maturity. Its current yield is 5%. The current market price of the bond is

A £100

B £105

C £106

D £120

[1 mark]

2 | 2

Which one of the following combinations, **A**, **B**, **C** or **D**, best distinguishes between the functions of the money market and the capital market?

	Money market	Capital market	
A	The market for issuing new shares	The market where foreign currency is exchanged at some point in the future	<input type="radio"/>
B	The market where commercial banks provide short-term loans to each other	The market where businesses obtain funds to finance long-term growth	<input type="radio"/>
C	The market where foreign currencies are traded	The main market in which commercial banks lend to each other	<input type="radio"/>
D	The market where the government finances its budget deficit by issuing bonds	The market where short-term debt is converted into equity finance	<input type="radio"/>

[1 mark]

Turn over for the next question



2 3

The table below shows the marginal income tax rates in an economy for 2016.

Table: Marginal income tax rates for every \$1 of income

Taxable Income	Income tax rates 2016
From \$0 to \$10 000	0%
From \$10 001 to \$30 000	10%
From \$30 001 to \$50 000	30%
\$50 001 and above	45%

How much income tax would be payable by someone earning \$40 000 in 2016?

A \$5 000

B \$5 500

C \$10 000

D \$12 000

[1 mark]

2 4

The national debt is the

A annual budget deficit plus the external trade deficit.

B amount by which the budget deficit increases each year.

C annual difference between government spending and tax receipts.

D the cumulative stock of outstanding central government borrowing.

[1 mark]



2 | 5

The table below shows how much of each of two products can be produced by two countries with the same amount of resources.

	Motorbikes	or	Cars
Brazil	10	or	5
United States	6	or	2

Which one of the following statements is correct?

- A Brazil has a comparative advantage in the production of both motorbikes and cars.
- B Brazil has a comparative advantage in the production of cars.
- C The opportunity cost of producing motorbikes is higher in the United States than Brazil.
- D Trade will not take place because Brazil is better at producing both goods.

[1 mark]

2 | 6

A country has a Human Development Index of 0.91. This country is most likely to have

- A a high dependence on its primary sector.
- B a low level of life expectancy.
- C rapid population growth.
- D relatively low levels of illiteracy.

[1 mark]

Turn over for the next question



2 7

The table below shows the Consumer Prices Index for a country over a number of years.

Year	End of year prices index
1	100
2	98
3	103
4	105
5	106
6	104
7	107

Which one of the following can be concluded from the table?

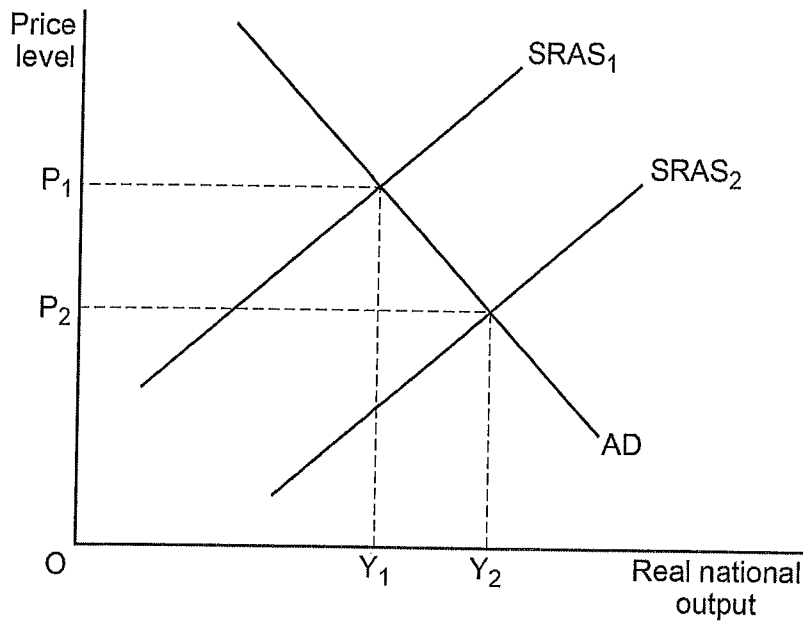
- A** The country suffered disinflation in Year 5
- B** The inflation rate was highest in Year 7
- C** The only time the country suffered deflation was in Year 2
- D** Real incomes fell between Year 1 and Year 7

[1 mark]



2 8

The diagram below shows the aggregate demand (AD) and two short-run aggregate supply (SRAS) curves for an economy.



All other things being equal, which one of the following is most likely to cause the short-run aggregate supply curve to shift from $SRAS_1$ to $SRAS_2$?

- A A fall in the size of the labour force
- B An increase in imports
- C An increase in the value of the multiplier
- D Lower world commodity prices

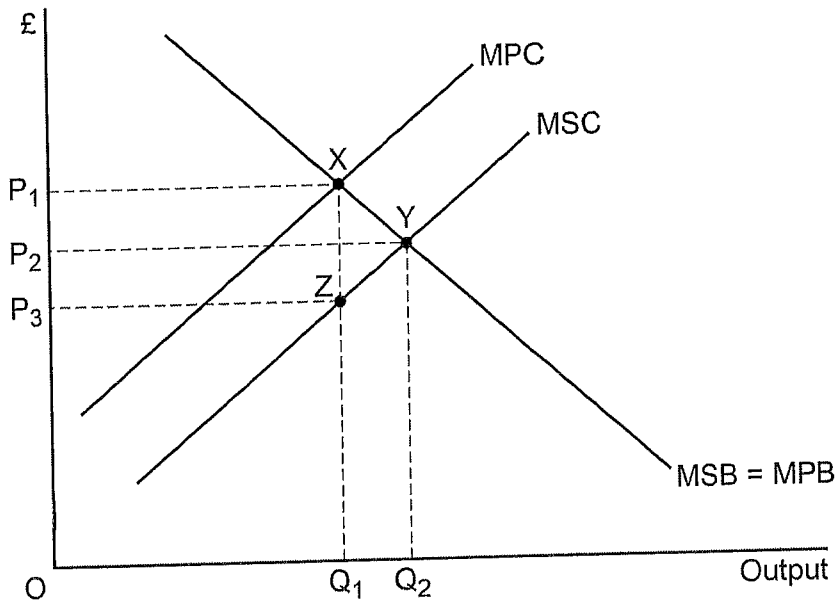
[1 mark]

Turn over for the next question



2 9

The diagram below shows the marginal private and social benefit (MPB and MSB) curves and the marginal private and social cost (MPC and MSC) curves in a market where there are positive externalities in production.



At the free market equilibrium, market failure occurs. Which one of the following is correct?

- A As a result of this market failure, consumer surplus is reduced by ZXY
- B As a result of this market failure, there is a deadweight loss to society of P_3P_1XZ
- C P_1 minus P_3 is the subsidy per unit that is required to correct the market failure and achieve the social optimum
- D The diagonal distance XY shows the amount by which marginal private cost exceeds marginal social cost at OQ_2

[1 mark]

3 0

The price elasticity of demand for games consoles is -1.2. It can be concluded that a 10% reduction in their price would lead to a percentage change in demand of

- A -8.3%
- B -12.0%
- C +8.3%
- D +12.0%

[1 mark]

30



Turn over for Section B

**DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED**



Section B

Answer all questions in this section

Refer to the insert for Extracts A, B, C and D.

Total for this Investigation: 50 marks

The march of the makers – does manufacturing matter?

INVESTIGATION

Scenario

You are an economist, employed by a firm of economic consultants working for the government. You have been asked to produce a report on the importance of manufacturing for the UK economy. As part of this investigation, you are to provide answers to three questions.

Referring to the insert, study Extracts **A, B, C** and **D**, and then use these and your own economic knowledge to help you answer questions 31, 32 and 33.

3 1

To what extent, if at all, do you consider that the UK manufacturing sector has been in decline since 2003? You must use the data in **Extract B** to support your assessment.

[10 marks]

Handwriting lines for the answer.



Extra space _____



A large rectangular box containing 28 horizontal lines for writing.



A large rectangular box containing 25 horizontal lines for writing.



A-level ECONOMICS 7136/1

Paper 1 Markets and market failure

Specimen 2014

Morning

Time allowed: 2 hours

Materials

For this paper you must have:

- an answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/1.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.

Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Context 1

Total for this context: 40 marks.

The UK energy market

Study Extracts A, B and C and then answer all parts of Context 1 which follow.

Extract A: Average household dual fuel bills August 2009–2013 (£)

	2009	2010	2011	2012	2013
Household bills	1145	1105	1250	1310	1420
Wholesale energy costs per bill	615	485	585	625	635
Profit per bill	10	55	45	50	95

Source: Contains public sector information licensed under the Open Government Licence v. 1.0

Extract B: Are energy firms exploiting their market power?

The UK energy market was privatised in the early 1990s and is dominated by six firms, British Gas, EDF Energy, E.ON, Npower, Scottish Power and SSE. These firms supply, produce and own energy reserves. Gas is the main source of fuel used by electricity generators.	1
The increase in household fuel bills has been a cause of rising inflation in recent years. In autumn 2013, prices were increasing at three times the rate of inflation. Energy prices have risen faster than average earnings and 6.5 million households were spending over 10% of their incomes on energy and so experiencing 'fuel poverty'.	5
Are the oligopolistic energy utilities exploiting their monopoly power? Firms raise prices quickly when their wholesale costs increase, but are slow to reduce them when market conditions change. The energy regulator, OFGEM, doesn't regulate prices or profits, but aims to promote greater competition in the market. OFGEM has found no evidence of collusion between energy suppliers to date.	10
Wholesale energy costs are responsible for around half the final domestic bill. Suppliers buy energy on the wholesale market from energy producers. Contracts are complex and firms buy energy to cover their future needs. A generator may sell energy to a supplier within the same company before it is sold on to the consumer. The determination of wholesale prices and their link to retail prices aren't clear.	15
UK households faced over 1756 different price plans in early 2013. This makes it difficult for consumers to compare rates and few consumers switch supplier. In 2013 OFGEM intervened to fix the maximum number of price plans to four per firm; this should bring greater price transparency.	20

Source: News reports, October 2013

Extract C: Are price rises inevitable?

Do UK consumers pay too much for energy? Department of Energy & Climate Change research shows domestic electricity prices were fourth lowest and gas prices second lowest in a survey of 15 EU countries. Firms claim profits, averaging a return of 5% in 2012, are not excessive and are used to fund much-needed investment in both infrastructure and future energy supplies.	1 5
Will Morris, Group Managing Director of SSE, claims many factors are responsible for driving up prices: "Buying wholesale energy in global markets, delivering it to customers, and government-imposed levies collected through bills all cost more than last year."	
Ed Miliband, Leader of the Opposition in the UK, promised that a future Labour government would impose "a price freeze for twenty months because the market is not working", and that the regulator would make the market more competitive.	10
In the longer term, the UK needs to become less dependent on imported energy and use 'greener' sources such as wind, solar and nuclear. One in five UK power stations will be obsolete by 2023 and there is a risk of power shortages in coming years. The Government guarantees high prices to firms producing energy from renewable and nuclear sources but these costs are then passed on to consumers.	15
The Government claims that high guaranteed prices for power generators makes good long-term sense. Gas prices are expected to rise over the longer term, despite the discovery of shale gas in the UK. Could more be done to encourage households to reduce their demand for energy? Energy conservation could result in lower bills but few households are making use of the 'Green Deal' scheme to make homes more energy efficient.	20

Source: News reports, October 2013

0 | 1

Using the data in **Extract A**, calculate, to **two** decimal places, the overall percentage change in household bills from 2009 to 2013.

[2 marks]

0 | 2

Explain how the data in **Extract A** show that energy companies have exploited their market power.

[4 marks]

0 | 3

Extract B (lines 11–12) states that there is 'no evidence of collusion between energy suppliers to date.'

With the help of a diagram, explain how collusion between energy suppliers could affect the retail prices paid by consumers.

[9 marks]

0 | 4

In **Extract C**, (lines 9–10) Ed Miliband is quoted as saying that a future Labour government would impose "a price freeze for twenty months because the market is not working".

Using the data in the extracts and your economic knowledge, assess whether you agree that fixing a maximum price for energy that is sold to households is the best way of dealing with market failure in the UK energy industry?

[25 marks]

Do not answer Context 2 if you have answered Context 1.

OR

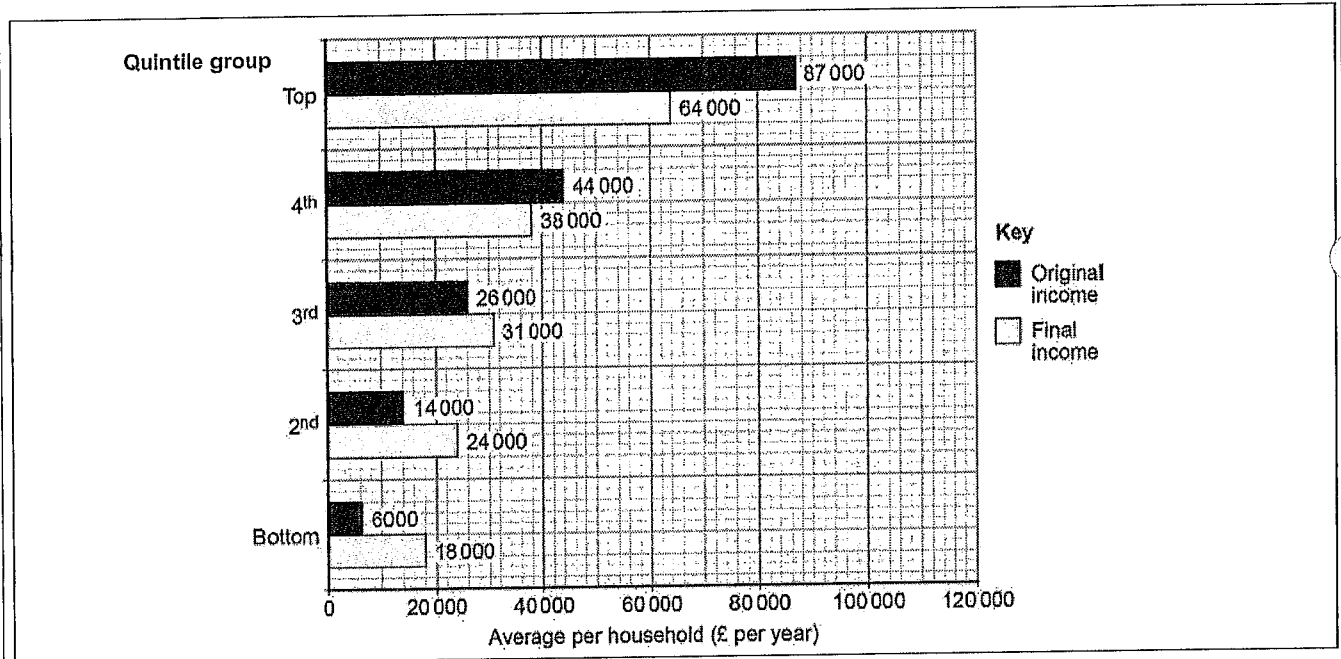
CONTEXT 2

Total for this Context: 40 marks

Inequality

Study Extracts D, E and F and then answer all parts of Context 2 which follow.

Extract D: The effects of taxes and benefits in the UK on household income by quintile groups, 2011–2012



Source: Office for National Statistics licensed under the Open Government Licence v. 1.0.

Extract E: In favour of inequality

The way in which society's resources are distributed has long been of major concern to economists, directly affecting as it does the level of social welfare. Changes in the size and distribution of national output raise important questions of efficiency and also involve basic issues of equality. However, what is equitable is a matter of considerable debate amongst economists of different political persuasions.

It has been argued by the supporters of free-market capitalism that growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all. Free market economists would argue that justice automatically arises from the interaction of demand and supply and the existence of competitive markets. In such a scenario, each factor receives what it is worth in terms of the value of its marginal revenue product. Disparities in income and wealth are justified by such factors as greater levels of innate or acquired skills which enable some factors to be more productive than others and earn a greater amount. Differences in the distribution of income and wealth are therefore viewed as inevitable and also desirable in that they provide the necessary incentives for individuals to study, train, supply their factor services and set up new businesses. These differences help the smooth operation of the price system and lead to an efficient resource allocation.

Moreover, an unequal distribution of income is seen as necessary to ensure economic efficiency and a faster growth rate – by making the rich richer, the size of the national cake, that is real GDP, will grow, and the benefits will trickle down to the less well off.

1

5

10

15

Source: News reports, November 2013

Extract F: Against inequality

The main outcome of the post-1980 experiment in neo-liberal (market) economics has been an economy that is much more divided and unhealthy, both of which are closely related. There are three powerful reasons why the global financial crisis of 2008 and 2009 had its roots in excessive concentrations of income and wealth. 1

First, above a certain limit of inequality, economies develop a natural tendency to deflation. In the UK and US, by cutting the purchasing power to buy the extra output being produced, the long wage squeeze has created consumer societies without enough consumers. The solution has been to allow an unsustainable increase in private debt to fill the gap. 5

Second, concentrating income in fewer and fewer hands eventually leads to bubble economies in which the prices of assets, such as houses and shares, rise continuously until the 'bubbles' eventually burst. From the early 1990s, the growing inequality created a global mix of increasing company profits, excessive bank lending and rapidly growing personal wealth, all of which contributed to the bubbles in property and share prices. This eventually brought the global economy to its knees. 10

Finally, excessive concentrations of wealth create dangerous concentrations of economic power. Corporate lobby groups, which promote the interests of the financial sector, are able to promote measures such as weak financial regulation by the state and lower taxes on the wealthy. 15

Source: Copyright Guardian News & Media Ltd 2011

0 5

Using the data in **Extract D**, calculate the difference between the mean original income and the mean final income of the five quintile groups.

[2 marks]

0 6

Explain how the data in **Extract D** show that taxes and benefits have been successful in reducing inequalities in household income in the UK.

[4 marks]

0 7

Extract F (lines 9–10) states that 'concentrating income in fewer and fewer hands eventually leads to bubble economies in which the prices of assets, such as houses and shares, rise continuously'.

With the help of a diagram, explain how growing inequality might lead to a persistent rise in the price of houses.

[9 marks]

0 8

Extract E (lines 6–7) states that 'growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all'.

Using the data in the extracts and your economic knowledge, assess the view that inequality is 'good for us all.'

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

Apple sells iPhones and iPads at considerably lower prices in the USA than in the UK market, but sources the products from the same factories in the Far East.

0 9

Explain why firms, such as Apple, might be able to charge different prices for the same product in different markets. **[15 marks]**

1 0

Discuss the view that price discrimination only benefits suppliers, such as Apple. **[25 marks]**

OR

Essay 2

Traditional economic theory assumes that consumers make rational decisions that maximise their economic welfare, but behavioural economists disagree.

1 1

Using examples to illustrate your answer, explain how anchoring **and** loss aversion can affect an individual's choices when deciding how to spend or save their income. **[15 marks]**

1 2

The Government would like to improve the well-being of the population by encouraging people to adopt a healthy diet. Using your knowledge of **both** traditional economic theory **and** behavioural economics, assess alternative policies that the Government might adopt to try to achieve its objective **[25 marks]**

OR

Essay 3

It is generally accepted that we need to adopt new ways of charging for the use of our roads. This is partly because of worsening congestion, but is also due to the reduction in revenue generated from taxes on fuels as a result of more fuel-efficient vehicles.

1 3

Explain why, in the absence of government intervention, too many journeys are likely to be made by road and too few by rail. **[15 marks]**

1 4

Assess the view that a system of road-pricing is the best way to tackle the problem of worsening traffic congestion in the UK. **[25 marks]**

END OF QUESTIONS

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A-level **ECONOMICS** **7136/2**

Paper 2 National and international economy

Specimen 2014

Morning

Time allowed: 2 hours

Materials

For this paper you must have:

- an answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/2.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.

Section A

Answer EITHER Context 1 OR Context 2.

EITHER

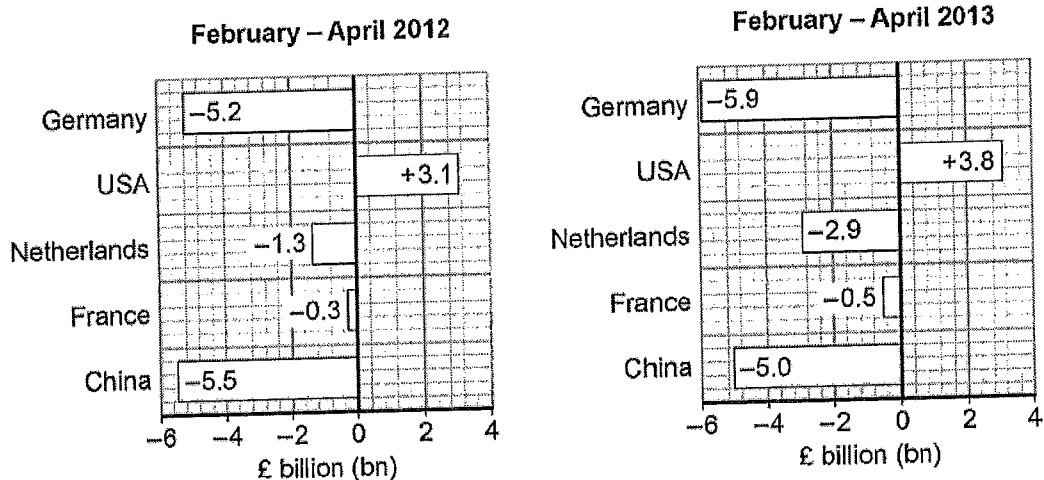
Context 1

Total for this Context: 40 marks.

International trade

Study Extracts A, B and C and then answer all parts of Context 1 which follow.

Extract A: UK's trade balance in goods with significant trading partners* 3 monthly balance (£billion)



* Significant trading partners defined as top 5 combined export & import sources 2012

Source: Contains public sector information licensed under the Open Government Licence v. 1.0

Extract B: Transatlantic free trade?

David Cameron today confronted his critics by making the positive case for continuing European Union membership as he held talks with President Barack Obama over a giant US-EU trade deal that could provide a £10bn annual boost to the UK economy. 1

With his party in renewed turmoil over Europe, the Prime Minister sought to reassure the White House (where senior figures in the Obama administration have insisted they regard the UK as a crucial member of the union) that the UK are not looking to leave the EU. 5

The planned agreement would establish a free trade area between the world's two largest trading blocs, creating a transatlantic market of 800 million consumers.

Writing in today's Wall Street Journal, Mr Cameron says: "This deal could add as much as £10bn to the UK economy and £63bn to US GDP. But the rest of the world would benefit too, with gains that could generate €100bn (£84bn) worldwide". 10

The Government last night released research suggesting a US-EU agreement sweeping away trade barriers would particularly benefit the automotive, financial and chemical sectors. It claimed the deal could be worth £380 a year for each British family.

Karel de Gucht, the European Commissioner for Trade, has cited the deal as a prime reason for the UK staying in the EU, telling The Independent last week that it would be "clear madness" for the UK to leave in light of such a deal. 15

Source: Adapted from: © www.independent.co.uk 13 May 2013

Extract C: China and Europe risk trade war

China this week responded to EU anti-dumping tariffs on solar panels with a levy on European wine. However, by attacking wine producers, Beijing has potentially turned a straightforward dispute over state subsidies between Germany and China into a full-blown European trade war.	1
France has effectively been targeted in retaliation for a levy designed to protect German manufacturers in what appears to be a deliberate attempt to increase tensions within the EU. In doing so, experts said that China, which is relatively new to the politics of global trade, has demonstrated smart tactics.	5
The danger is that China may decide to target other seemingly innocent parties if the row escalates, and that might mean the UK. Increased protectionism could be damaging as the UK is placing much of its hope for export success on the growing Chinese market.	10
In the last five years, UK goods exports to China have virtually doubled to £15.9bn and, three years ago, David Cameron set a \$30bn (£20bn) target by 2015 as part of a bilateral deal with Beijing. Including Hong Kong, China is now the UK's fifth largest net trading partner.	
However, China's influence in the UK stretches wider. At the end of 2011, foreign direct investment into the UK from China totalled £1.3bn, the second largest in the EU after Germany. In the last six months alone, China's telecoms giant Huawei has announced plans to invest £1.3bn in a new plant while ABP (a large Chinese investment group), plans to spend £1bn developing the Royal Albert Dock in London.	15
The Government also hopes to attract Chinese money to invest in UK infrastructure as part of George Osborne's 'Plan for Growth'. In other words, China is a key part of the Government's economic recovery plan.	20

Source: ©Telegraph Media Group Ltd 2013

0 | 1

Using the data in **Extract A**, calculate, to **one** decimal place, the percentage change in the total net trade balance in goods with the UK's top five trade partners from February–April 2012 to February–April 2013.

[2 marks]

0 | 2

Explain how the data in **Extract A** show that the UK is having more success in trading goods with the rest of the world than with Europe.

[4 marks]

0 | 3

Extract B (lines 12–13) states 'The Government last night released research suggesting a US-EU agreement sweeping away trade barriers would particularly benefit the automotive, financial and chemical sectors.'

With the help of a diagram, explain the extent to which the removal of a tariff might affect the volume of imports into the UK.

[9 marks]

0 | 4

Extract C (lines 10–11) suggests that 'Increased protectionism could be damaging as the UK is placing much of its hopes for export success on the growing Chinese market.'

Using the data in the extracts and your economic knowledge, evaluate the view that the use of protectionism is inevitably damaging to economies.

[25 marks]

Do **not** answer Context 2 if you have answered Context 1.

OR

CONTEXT 2

Total for this Context: 40 marks

Government policy

Study Extracts D, E and F and then answer **all** parts of Context 2 which follow.

Extract D: IMF actual and forecast growth rates for selected economies (% per annum)

	Actual	Actual	IMF forecasts for 2013	
	2011	2012	Initial forecast	Revised forecast
China	9.3	7.7	7.8	7.6
France	2.0	0.0	-0.1	0.2
Germany	3.4	0.9	0.3	0.5
UK	1.1	0.2	0.9	1.4
USA	1.8	2.8	1.7	1.6
World	3.9	3.2	3.2	2.9

Source: IMF, 8 October 2013

Extract E: Rising rates?

The Bank of England warned that interest rates might rise as early as next year as its chief economist said the desire to keep borrowing costs low for several years could be damaged by stronger than expected growth. Spencer Dale, one of the nine members of the interest rate-setting Monetary Policy Committee, said the UK may soon be growing at an annual rate of between 3 and 4% and the Bank could not be certain when it might need to tighten policy.

1

Following guidance issued by the Bank in August, the City is expecting interest rates to remain on hold at their record low of 0.5% until at least 2015. But Dale said that in certain circumstances an increase could happen as soon as 2014. "The big message is that monetary policy is going to remain loose for a considerable period of time. I can't be sure whether that means it will be tightened in 2015 or 2016."

5

The Bank said in August that, unless there was a risk from inflation or an over-heating property market, it would only start thinking about raising interest rates when unemployment had come down to 7% from 7.7% currently, something it did not expect until 2016. But the recovery in the economy, seen since the spring, has left many in the City convinced that the Bank will be forced to take action before then.

15

Dale said he welcomed the fact that the housing market was recovering, and saw no immediate threat of a house price bubble. It was 'great' for the construction sector that more houses were being built, and the increase in mortgage approvals would boost demand for professional services and lead to greater labour mobility. "It is good for consumption, because there is quite strong evidence that when people move home they go out and change the carpets and buy new furniture."

20

Source: News reports, 2013

Extract F: Austerity remains

The Chancellor, George Osborne, has ruled out the possibility that the UK's improving economy will lead to immediate tax cuts or spending increases when he said reducing the budget deficit would be the priority of his Autumn Statement. The Chancellor said that the UK was still borrowing too much and that any increase in tax revenues generated from faster growth would be used to reduce the budget deficit and the national debt.	1
The move comes as no surprise, with the Chancellor stating, "I would just remind everyone that I still sit down at the table at the G20 with one of the highest budget deficits. The UK still continues to have some very serious public finance challenges that need to be addressed."	5
This week, the IMF revised up its forecasts for UK growth in both 2013 and 2014, six months after its chief economist, Olivier Blanchard, warned Osborne that he might cause more damage with his austerity plan. However, Osborne responded, "We have a clear plan and we are sticking to that plan."	10
The Chancellor's announcement may not be good for UK firms. It is common for business investment to lead the way when emerging from recession, but not this time. Investment forecasts are being revised downward and, on top of speculation of interest rate rises and criticism of the UK's quantitative easing programme, the outlook is not as good as forecasts first indicated.	15
In explaining its forecast downgrades for net investment over the last three years, the Office for Budget Responsibility (OBR) cites two main factors. Firstly, problems in credit markets have made it difficult for firms to borrow to invest. This may have particularly affected small and medium-sized firms that tend to be more reliant on bank financing. This will only be made worse if interest rates rise. Secondly, the uncertainty generated by the eurozone crisis and other events has stifled investment.	20

Source: News reports, 2013

0 5

If UK GDP in 2012 was \$2375 billion, use the data in **Extract D** to calculate, to the nearest \$billion, the difference in forecast UK GDP between the IMF's initial and revised growth forecasts.

[2 marks]

0 6

Explain how the data in **Extract D** show that the IMF has become less confident about growth rates.

[4 marks]

0 7

Extract E (lines 4–6) states 'the UK may soon be growing at an annual rate of between 3 and 4% and the Bank could not be certain when it might need to tighten policy.'

With the help of a diagram, explain why interest rates may need to rise if growth rates increase.

[9 marks]

0 8

Extract F (lines 14–17) states 'Investment forecasts are being revised downward and on top of speculation of interest rate rises and criticism of the UK's quantitative easing programme, the outlook is not looking as good as forecasts first indicated.'

Using the data in the extracts and your economic knowledge, evaluate the effectiveness of monetary policy in achieving macroeconomic stability in the UK.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

In recent years, growth rates in the UK have been low and unemployment has risen. For example, in 2012 output was still below its peak of 2008 and unemployment had risen from 6.4% from 7.8%.

0 9

Explain why economic growth is a key objective of UK Government economic policy. **[15 marks]**

1 0

Evaluate the view that a reduction in UK unemployment is best achieved through the use of supply-side policies. **[25 marks]**

OR

Essay 2

In 2013, two key aims of the UK Government were: to move the budget deficit towards a surplus over the course of the Parliament and to ensure that the main burden of deficit reduction would be through reduced government spending, rather than increased taxation.

1 1

Explain the possible demand-side consequences of an increase in taxation in the UK. **[15 marks]**

1 2

Evaluate the view that the UK Government's policy of deficit reduction through lower government spending is unnecessary and undesirable. **[25 marks]**

OR

Essay 3

In 2013 Ethiopia had a relatively high real GDP growth rate of 7% but only 42% of its population had access to improved water sources and life expectancy was only 63 years.

1 3

Using examples to illustrate your answer, explain the difference between economic growth and economic development. **[15 marks]**

1 4

Discuss the view that free trade is more effective than aid in promoting economic development in developing countries such as Ethiopia. **[25 marks]**

END OF QUESTIONS

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10
11

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Extract D © Source: IMF, 8 October 2013
Extract E © Source: News reports, 2013
Extract F © Source: News reports, 2013

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A-level
ECONOMICS
7136/3

Paper 3 Economic principles and issues

Insert

Brazil: The hot 'BRIC'

- **Extract A:** Who are the BRICs?
- **Extract B:** Brazilian economy
- **Extract C:** How does Brazil compare with the UK?
- **Extract D:** News report – Is Brazil in trouble?

Extract A: Who are the BRICs?

The BRIC label was first coined by the investment bank Goldman Sachs and refers to a group of four large developing countries (Brazil, Russia, India and China), distinguished from other promising emerging markets by their potential to rank among the world's largest and most influential economies by the mid-21st century. Their potential is largely due to their natural resources, the size and structure of their population, their attitudes to investment and trade, and their capacity for technological progress. The four BRIC economies have a combined population of over 2.8 billion, about 40% of the world's population. They also produce more than a quarter of the world's output.

Analysts have suggested that, to enable a country to realise its potential for growth, there is a number of conditions that need to be met. These include:

- a suitable level of human capital, for example, in relation to education, inequality and life expectancy
- a stable macroeconomic environment, for example, as reflected in indicators of inflation, growth and government borrowing
- access to current technologies such as the Internet and mobile communications
- a stable political environment including the rule of law and the absence of widespread corruption.

Source: News reports, October 2013

Turn Over for Extract B

Extract B: Brazilian economy

Brazil has a mixed economy with abundant natural resources. It has been the world's largest producer of coffee for the last 100 years and it will shortly become one of the world's top ten oil producers. Brazil also has a strong manufacturing sector. For example, it is a likely source of the A4 paper you use in your printer, and its Bandeirante Corporation has long competed with aerospace giants as a world-class manufacturer in the niche market of short-haul commuter aircraft. By value, it ranks as the 23rd largest exporter in the world. However, the discovery of oil off the coast of Brazil has led to an appreciating currency; this makes life more difficult for domestic manufacturers. 1

Brazil is the world's fifth largest country by both population and total area. It has grown rapidly over the last thirty years and is now the world's seventh largest economy. It has the fourth largest car market in the world. From 1980 to 2011, Brazil's Human Development Index increased by 30.8%. However, Brazil is also well known for its inequality, and there is much rural and urban poverty. Many of its large cities contain crowded and deprived slum districts known as favelas. Brazil's health care system ranks 125th out of 190 countries. 5

Brazil currently dominates Foreign Direct Investment (FDI) into Latin America and in 2011 it attracted about one third of all the FDI into the region. FDI creates jobs and contributes to improvements in human capital as foreign companies often invest in their workforce. New investment has a multiplier effect and the resultant growth in GDP generates higher tax revenues for the Brazilian Government. However, there are also the environmental effects to consider. Many overseas companies that are located in Brazil export part of their output but some of their profits are sent abroad. 10

15

20

Source: News reports, October 2013

Turn Over for Extract C

Turn over ▶

Extract C: How does Brazil compare with the UK?

Selected data for the UK and Brazil (2013 unless otherwise stated)

	UK	Brazil
GDP (PPP)	\$2.39 trillion	\$2.42 trillion
Real GDP per head (PPP)	\$36,600	\$12,100
Real GDP growth per capita (2000–2012)	1.14% per annum	2.27% per annum
Average growth (2000–2012)	1.72% per annum	3.41% per annum
Human Development Index (HDI)	0.875 (World ranking 26)	0.730 (World ranking 85)
Unemployment	7.7%	5.5%
Inflation	2.7%	6.2%
Current account of the balance of payments (%GDP)	-2.41%	-3.83%
Public sector debt (%GDP)	91.1%	59.2%
Budget balance (%GDP)	-7.4%	+1.6%
Industry %GDP	20.5%	26.4%
Services %GDP	78.9%	68.1%
Gini coefficient	34.0	54.7
Share of income of the poorest 10% of the population	2.1%	0.8%
Share of income of the richest 10% of the population	28.5%	42.9%
Years of schooling	16 yrs	14 yrs
Literacy rate	99%	90.4%
Life expectancy	80.3 yrs	73.0 yrs
Infant mortality rate	4.5 per thousand live births	19.8 per thousand live births
Population	63.4 million	201.0 million
Population, % over 65	17.3%	7.3%
Population, % under 15	17.3%	24.2%

Source: The World Factbook 2013–14. Washington, DC: Central Intelligence Agency, 2013.

Note: PPP = purchasing power parity

Turn over for Extract D after you have answered questions 31 and 32 in order to answer question

Extract D: News report – Is Brazil in trouble?

In June 2013, more than a million citizens across Brazil took to the streets to protest against political corruption, poor healthcare, inadequate schools, substandard public transport and crumbling infrastructure. This is in a country which is reported to be spending \$13.3 billion to host the 2014 World Cup and \$18 billion to host the 2016 Olympic Games. 1

In February 2014, the Brazilian currency, the real, is also making the headlines. In recent months it has collapsed against the pound. A year ago, visitors to Brazil would have got 2.70 real for £1 but now the rate stands at 3.61 to the pound. The fall in the value of the real is in response to a widening budget deficit and fears that the government's credit rating will be reduced. In response, the central bank has raised its base interest rate to 10.75%. 5 10

Source: News reports, March 2014

END OF SOURCE BOOKLET

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Extract C: Source: The World Factbook 2013–14. Washington, DC: Central Intelligence Agency, 2013.

Extract D: Source: News Reports; March 2014

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A-level ECONOMICS 7136/3

Paper 3 Economic principles and issues

Specimen 2014

Morning

Time allowed: 2 hours

Materials

For this paper you must have:

- a calculator.

Instructions

- Answer **all** questions.
- Use a black ball-point pen. Do **not** use pencil.
- 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 question 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.

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

Which one of the following is a true statement about average fixed costs?
Average fixed costs

- A do not change as output changes.
- B fall as output increases.
- C include rent and raw materials.
- D equal total costs minus total variable costs.

[1 mark]

0 2

Which one of the following is an example of a supply-side policy rather than a demand-side policy?

- A An increase in the supply of money.
- B Increased government expenditure on welfare benefits.
- C An increase in export subsidies.
- D Increased government expenditure on education and training.

[1 mark]

0 3

The table below shows the total utility of an individual's consumption of chocolate bars.

Quantity	Total utility
1	100
2	180
3	250
4	300
5	330

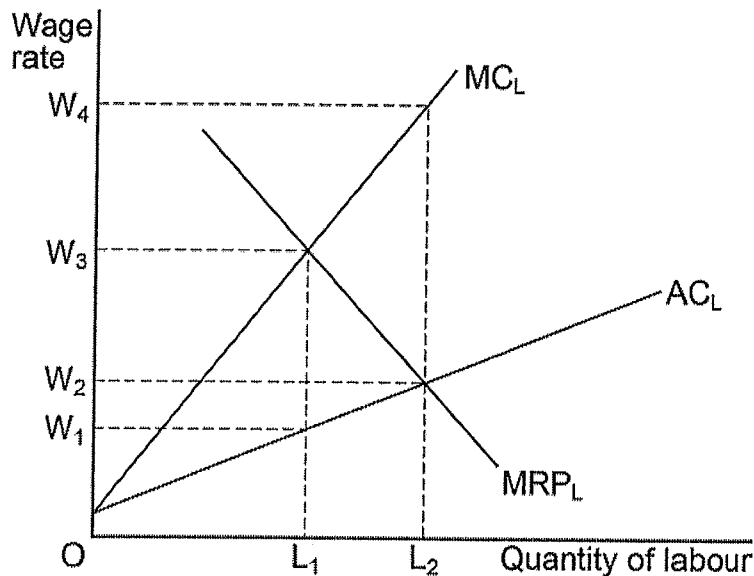
What is the marginal utility gained by the consumption of the fourth chocolate bar?

- A 30
B 50
C 70
D 300

[1 mark]

0 4

The diagram below shows the Marginal Revenue Product of Labour (MRP_L), Marginal Cost of Labour (MC_L) and Average Cost of Labour (AC_L) curves in a market where there is a single employer but labour is supplied competitively.



The employer's profit-maximising wage rate and level of employment is a

- A wage of W_1 and employment of L_1
B wage of W_2 and employment of L_2
C wage of W_3 and employment of L_1
D wage of W_4 and employment of L_2

[1 mark]

0 5

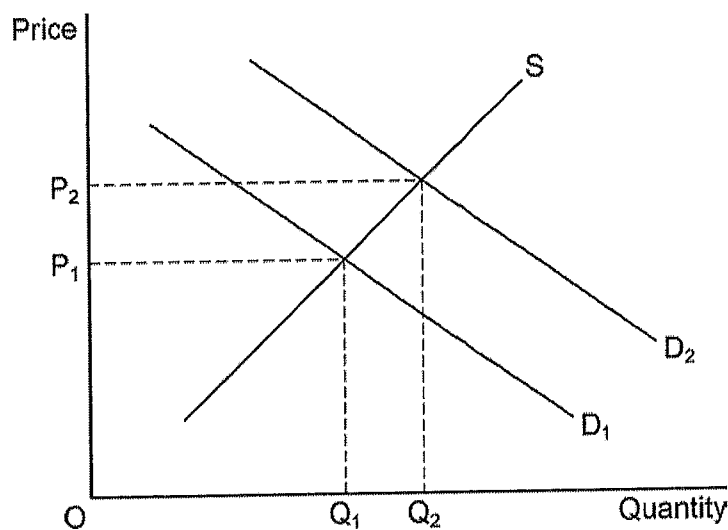
Over a period of time, the value of the pound against the US dollar changes from £1 = \$2.00 to £1 = \$1.50. All other things being equal, this is most likely to result in

- A UK products becoming more expensive in the US.
- B a downturn in the UK's economic cycle.
- C a higher inflation rate in the UK.
- D an increase in the UK's budget deficit.

[1 mark]

0 6

The diagram below shows the market demand and supply curves for electric light bulbs.



Assuming that electric light bulbs are a normal good, the shift in the demand curve from D_1 to D_2 and the rise in the equilibrium price from P_1 and P_2 can be explained by

- A an increase in household incomes.
- B an increase in the price of electricity.
- C a decrease in the rate of value added tax (VAT) on light bulbs.
- D the introduction of a government subsidy to the producers of light bulbs.

[1 mark]

0 7

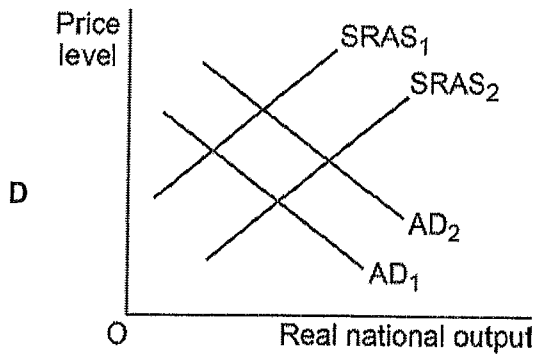
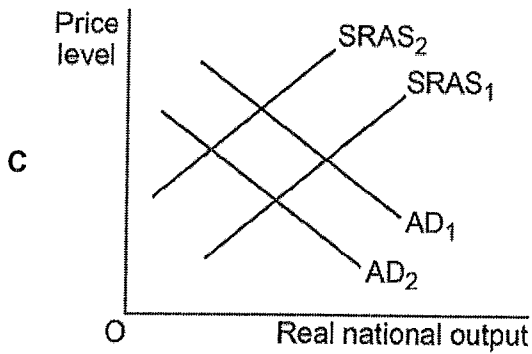
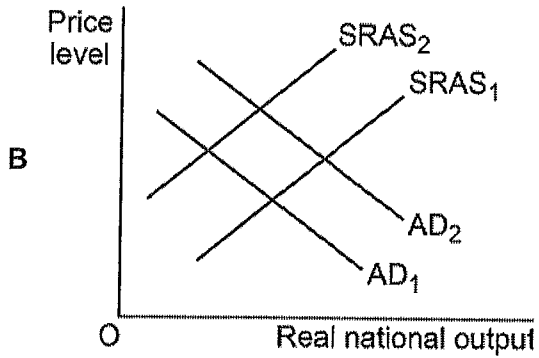
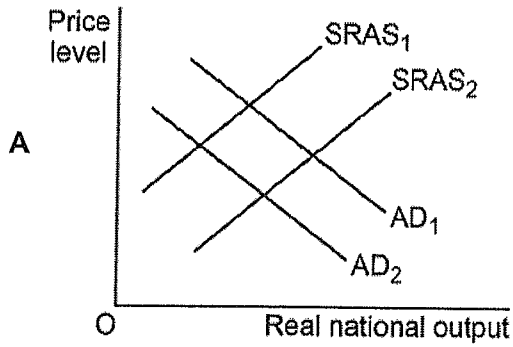
Which one of the following is used to measure inequality in the distribution of income?

- A The size of the employed labour force.
- B The value of the Gini coefficient.
- C The size of the income multiplier.
- D The marginal rate of income tax.

[1 mark]

0 8

The four diagrams below show aggregate demand (AD) and short-run aggregate supply (SRAS) curves for the UK economy. All other things being equal, which one of the diagrams **A**, **B**, **C** or **D** shows the most likely effects of an increase in raw material prices and an increase in income taxes on consumers?



[1 mark]

Turn over ▶

0 9

All other things being equal, a rise in which one of the following would shift an economy's short-run aggregate supply curve to the left?

A Wage rates B Imports of consumer goods C The money supply D Labour productivity

[1 mark]

1 0

The table below shows the marginal private and external benefits and the marginal private and external costs of two products at their free market equilibrium level of output.

	Product X (£)	Product Y (£)
Marginal private benefit	200	70
Marginal external benefit	50	40
Marginal private cost	200	70
Marginal external cost	90	30

To improve the allocation of resources, what should the government do?

A Tax product X and subsidise product Y B Tax product X and tax product Y C Subsidise product X and tax product Y D Subsidise product X and subsidise product Y

[1 mark]

1 1

Three aims of commercial banks are liquidity, profitability and security. To achieve these aims, the banks hold a range of assets. Which one of the following shows a list of banks' assets ranging from the most liquid to the least liquid?

- | | Most liquid | → | Least liquid | | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------|
| A | Balances at the Bank of England | Treasury bills | Government bonds | Advances | <input type="radio"/> |
| B | Treasury bills | Balances at the Bank of England | Advances | Government bonds | <input type="radio"/> |
| C | Government bonds | Advances | Balances at the Bank of England | Treasury bills | <input type="radio"/> |
| D | Advances | Government bonds | Treasury bills | Balances at the Bank of England | <input type="radio"/> |

[1 mark]

1 2

According to the principle of comparative advantage, on what does a country's gains from international trade depend?

- A Its level of money wage rates compared to its trading partners.
- B It imposing a higher level of tariffs compared to those of its trading partners.
- C Its greater productive capacity in some goods compared to its trading partners.
- D Its lower opportunity cost in the production of some goods compared to its trading partners.

[1 mark]

1 3

The table below shows the effective exchange rate index for Country X in 2010 and 2012 (2012 = 100).

Year	Effective exchange rate index
2010	125
2012	100

All other things being equal, which one of the following options provides both the correct percentage change in the index from 2010 to 2012 and a valid reason why this change may have occurred?

	Change in exchange rate	Reason	
A	20%	An increase in interest rates in Country X	<input type="radio"/>
B	20%	An increase in interest rates in other countries	<input type="radio"/>
C	25%	An increase in interest rate in Country X	<input type="radio"/>
D	25%	An increase in interest rates in other countries	<input type="radio"/>

[1 mark]

1 4

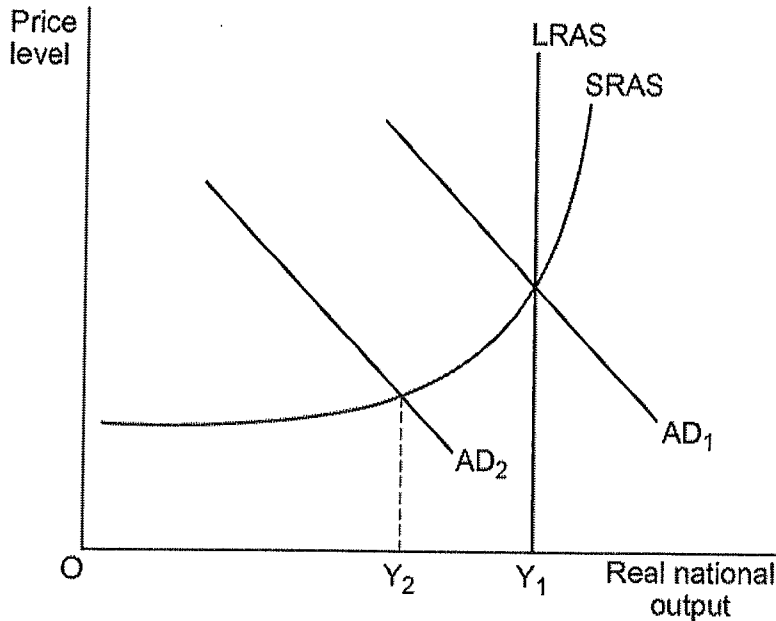
The lack of clearly defined property rights in a country is most likely to lead to

- A overproduction of merit goods.
- B equality of private costs with social costs.
- C overuse of scarce natural resources.
- D an efficient allocation of resources.

[1 mark]

1 5

The diagram below shows aggregate demand (AD), short-run aggregate supply (SRAS) and long-run aggregate supply (LRAS) curves for the UK economy. Initial aggregate demand is AD_1 . The shift of the aggregate demand curve to AD_2 is the result of a decrease in bank lending following the 2008–2009 financial crisis.



The shift in the AD curve indicates that the effect of the financial crisis on the UK economy was to create a

- A negative output gap and structural unemployment.
- B positive output gap and cyclical unemployment.
- C positive output gap and structural unemployment.
- D negative output gap and cyclical unemployment.

[1 mark]

1 6

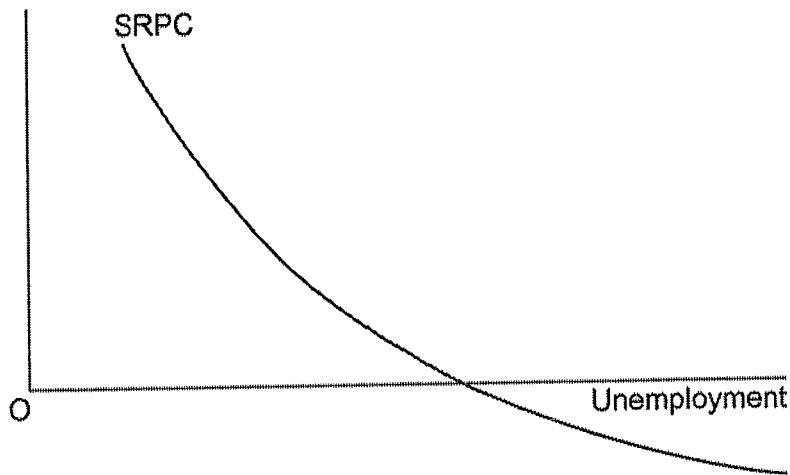
If the price elasticity of supply of a good is +4.0 and its price increases by 10%, the increase in quantity supplied is

- A 0.4%
- B 2.5%
- C 25%
- D 40%

[1 mark]

1 7

In the diagram below, SRPC is a short-run Phillips curve.



The vertical axis measures the

- A rate of interest.
- B price level.
- C percentage change in aggregate demand.
- D rate of inflation.

[1 mark]

1 8

Assuming a perfectly competitive labour market, a firm's demand curve for labour would be derived from its marginal

- A cost curve.
- B revenue product curve.
- C utility curve.
- D revenue curve.

[1 mark]

1 9

An injection into an economy, with a marginal propensity to consume of 0.8, leads to a total increase in national income of £350 million. What was the value of the initial injection?

- A £35 million
- B £70 million
- C £120 million
- D £280 million

[1 mark]

2 | 0

An essential difference between behavioural and traditional economic theory is that behavioural economic models assume that

- A people act rationally.
- B consumers attempt to maximise utility.
- C people consider all the available options when making choices.
- D emotional factors influence economic decision-making.

[1 mark]

2 | 1

Which one of the following macroeconomic policies is a Keynesian economist most likely to recommend as a means of stimulating recovery for an economy that has been in recession for several years?

- A Increasing taxes to finance increased government expenditure.
- B Increasing the money supply to maintain very low interest rates.
- C Increasing government expenditure financed by increased government borrowing.
- D Cutting government expenditure to balance its budget.

[1 mark]

2 | 2

Government intervention will result in a more efficient allocation of resources if

- A it leads to a reduction in the consumption of demerit goods.
- B it leads to a reduction in the subsidies received by firms.
- C it reduces the number of competing firms in an industry.
- D consumers are charged for the provision of public goods.

[1 mark]

2 3

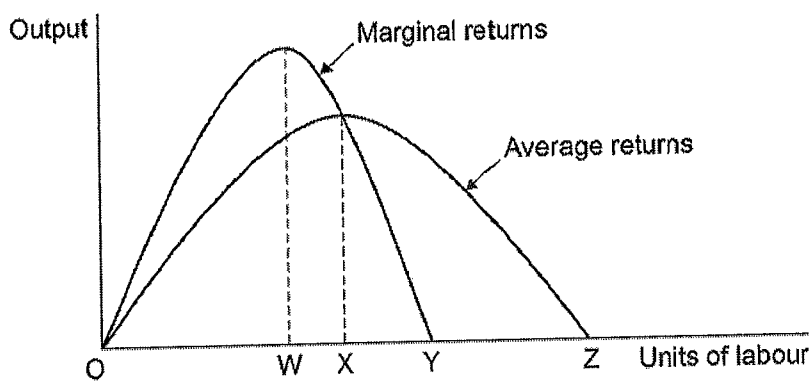
According to the Quantity Theory of Money, as illustrated by the equation of exchange $MV = PQ$, a rise in the money supply will have most effect on inflation when which one of the following combination of events occurs?

	Velocity of circulation (V)	Final output (Q)
A	Decrease	Decrease
B	Decrease	Increase
C	Increase	Increase
D	Increase	Decrease

[1 mark]

2 4

The diagram below illustrates the short-run effect on output of increasing the amount of labour employed in combination with a fixed factor of production.



At which level of employment will the total output of the firm be at its maximum?

A OW

B OX

C OY

D OZ

[1 mark]

2 | 5

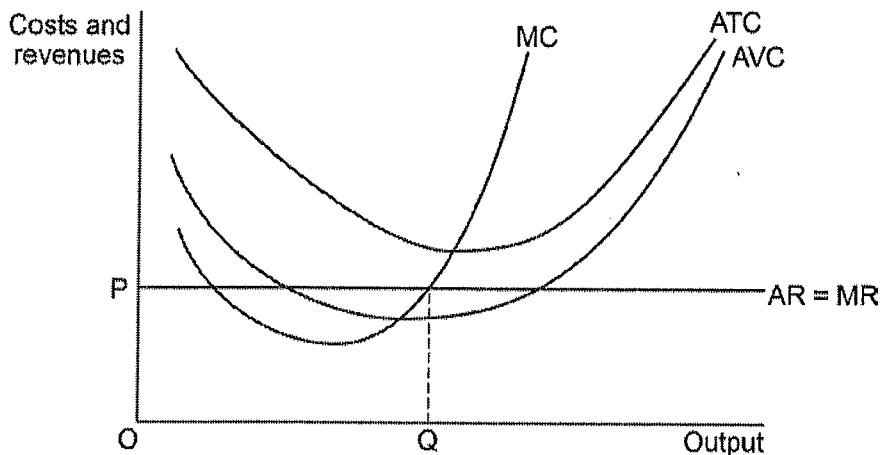
In 2012, the UK Government issued a £100 bond with a coupon of £3 per annum and 40 years until maturity. Two years later, the interest that could be earned on a similar asset had risen to 6%. What is likely to have happened to the price of the bond and its yield?

- A The price of the bond will have risen but the yield will be unchanged.
- B The price of the bond will have fallen but the yield will have increased.
- C The price of the bond will have risen but the yield will have increased.
- D The price of the bond will be unchanged but the yield will have fallen.

[1 mark]

2 | 6

The diagram below shows the cost and revenue curves for a firm in a perfectly competitive market.



All other things being equal, the firm

- A is making a loss in the short run but will remain in the market in the long run.
- B is making a profit and will remain in the market in the long run.
- C will exit the market immediately to minimise its loss.
- D is minimising its loss by staying in the market in the short run.

[1 mark]

2 | 7

The table below contains index number data for an economy's GDP, population size and its price level for the years 2005 and 2014. All three indices have 2005 for their base year.

	GDP	Population	Price level
2005	100	100	100
2014	200	120	150

Using the data, the increase in real GDP per capita between 2005 and 2014 is approximately

A 10%.

B 20%.

C 50%.

D 100%.

[1 mark]

2 | 8

The data below shows economic growth rates, unemployment rates and inflation rates for an economy.

Year	Real output growth rate (%)	Unemployment rate (%)	Inflation rate (%)
2010	2	4	6
2011	3	3	5
2012	4	3	4
2013	5	2	3

All other things being equal, which one of the following is the most likely explanation for the relationship between the rates of growth of real output, rates of unemployment and inflation between 2010 and 2013?

A A decrease in the money supply.

B An increase in innovation and productivity.

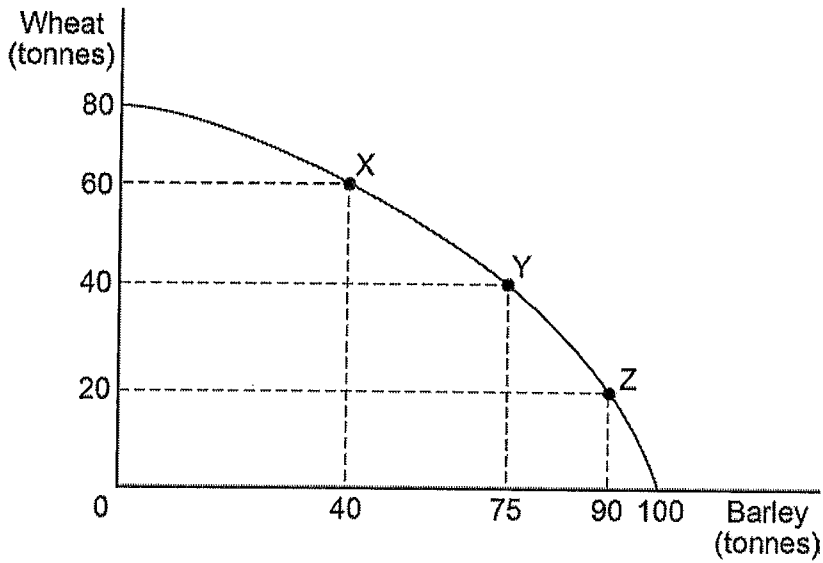
C A decrease in the savings ratio.

D An increase in the current account deficit.

[1 mark]

2 | 9

A farmer can produce two types of grain on his farm, wheat and barley. The production possibility boundary below shows the different quantities of the two grains that can be produced on the farm in a single year.



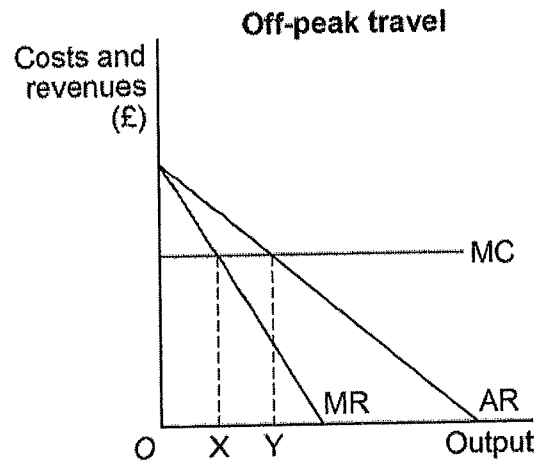
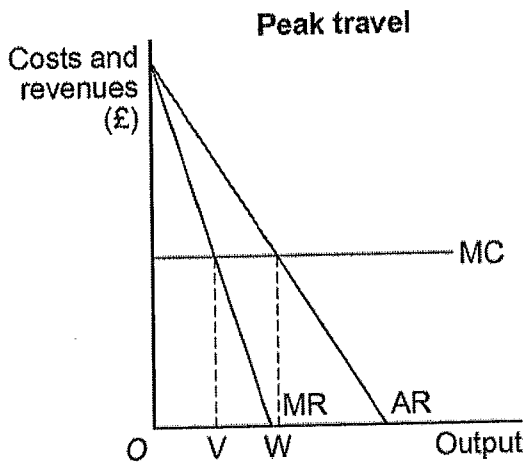
It can be deduced from the diagram that

- A a movement from X to Y results in an improvement in productive efficiency because the total output of grain increases from 100 to 115 tonnes.
- B at point X, the opportunity cost of producing 20 more tonnes of wheat is 40 tonnes of barley.
- C a movement from point Y to point Z does not involve an opportunity cost because all resources are fully employed.
- D the maximum amount of grain that the farm can produce in one year is 80 tonnes of wheat and 100 tonnes of barley.

[1 mark]

3 0

The diagrams below show the peak and off-peak travel markets for a price-discriminating train operating company. The firm is a monopolist and the costs in both markets are the same.



To maximise profits, how much should be supplied in each market?

	Peak travel	Off-peak travel
A	OV	OX
B	OV	OY
C	OW	OX
D	OW	OY

-
-
-
-

[1 mark]

QUESTION 30 IS THE LAST QUESTION IN SECTION A

Turn to page 18 for Section B

Turn over for the next section

**DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED**

Turn over ▶

A large rectangular area containing 25 horizontal lines for writing. The lines are evenly spaced and extend across most of the width of the page, leaving a margin on the left and right sides.

A-level Economics (7136)

Paper 1 Markets and market failure

Specimen 2015

Morning

2 hours

Materials

For this paper you must have:

- an answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/1.
- In **Section A**, answer **either** Context 1 **or** Context 2.
- In **Section B**, answer **one** essay.

Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.

Section A

Answer either Context 1 or Context 2.

Either

Total for this Context: 40 marks.

Context 1

Trade Unions

Study Extracts A, B and C and then answer all parts of Context 1 which follow.

Extract A: Trade union membership and density, UK, selected years 1995–2012

	1995	2000	2003	2006	2009	2012
Membership (number of employees, millions)	7.1	7.1	7.1	7.0	6.7	6.5
Density (total UK trade union membership as a % of all UK employees)	32.4	29.8	29.3	28.3	27.4	26.0

Source: contains public sector information licensed under the Open Government Licence v2.0

Extract B: Workers united?

In 1776, Adam Smith argued that business people often 'combined' (today we would say 'colluded') in order to fix prices and wages, while 'combinations' of workers were illegal. In his opinion there was an imbalance between the actions of employers and the rights of employees. In 1948, all members of the United Nations signed up to the Universal Declaration of Human Rights. Article 23 states: "Everyone has the right to form and to join trade unions for the protection of their interests." The Declaration also states that union membership cannot be made compulsory.

In the UK and in other modern democracies, most people would probably agree with the Australian Bureau of Statistics that a trade union is 'an organisation consisting predominantly of employees, the principal activities of which include the negotiation of rates of pay and conditions of employment for its members'. To an economist, a trade union replaces 'individual bargaining' with 'collective bargaining', which may enable workers to create a monopolistic supply of labour to counteract the monopsonistic demand for labour from powerful employers.

A prominent British trade union leader claimed recently that union membership was holding steady despite major economic difficulties, and advised workers worried about further shocks to the economy to join a union. He claimed that union members tended to be better paid than workers who are not part of a trade union but who do the same job. Union members earn on average nearly 17%, or £2 an hour, more than other workers.

Source: news reports, 2011

Extract C: Walmart and China

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company Walmart, the world's largest retailer and owners of Asda in the UK, has been known to stop operating in some countries rather than have to recognise unions. 1

With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as Walmart, McDonald's and FedEx, have adopted an anti-union stance in the countries in which they operate. 5

In China, however, Walmart has signed 'collective bargaining' agreements with the All-China Federation of Trade Unions (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on Walmart's part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. Walmart gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if Walmart's management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business. 10
15

Some economists believe that trade unions, by threatening industrial action, can force up wages and make it difficult for management to adopt changes that improve productivity. This, they believe, reduces firms' competitiveness and, in the long run, leads to job losses. However, others argue that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities in counteracting the monopsonistic power of large employers, and in preventing discrimination and exploitation. 20

Source: news reports, 2011

0 1

Using **Extract A**, calculate, to **two** decimal places, the percentage change in the number of employees who were union members in 2012 compared with 1995.

[2 marks]

0 2

Explain how the data in **Extract A** show the declining importance of trade unions in the UK labour market.

[4 marks]

0 3

Extract B (line 13) states that unions 'counteract the monopsonistic demand for labour from powerful employers'.

With the help of a diagram, explain how the monopsonistic demand for labour from powerful employers is likely to affect wages and employment in a labour market where there are no trade unions.

[9 marks]

0 4

Extract C (lines 21–22) states that '...any negative economic effects of trade unions are outweighed by the positive effects of trade union activities...'

Using the data in the extracts and your knowledge of economics, evaluate the view that trade unions protect the interests of workers and consequently improve the economic welfare of the society in which they operate.

[25 marks]

Do **not** answer Context 2 if you have answered Context 1.

or

Total for this Context: 40 marks

Context 2

Pollution and climate change

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

Extract D: Carbon emissions from fossil fuels, world and selected countries, 2010

(i) Total CO₂ emissions

	Millions of tonnes
China	8 290
USA	5 430
Russia	1 740
UK	500
Brazil	420
Nigeria	80
Qatar	70
Morocco	50
World	31 350

Note: figures are rounded

(ii) Per capita CO₂ emissions

	Tonnes per head
Qatar	64.5
USA	18.0
Russia	11.0
UK	8.5
China	6.5
Brazil	2.5
Morocco	1.0
Nigeria	0.5
World	4.6

Source: official statistics

Extract E: Climate change

In 2004, Russia signed up to the Kyoto Protocol, an international agreement on policies to manage climate change. This committed Russia to a United Nations programme to reduce emissions of greenhouse gases. In 2010, Russia's emissions were as low as their 1990 levels, but this was less to do with environmental policy and more to do with the collapse of heavy industry following the fall of the Soviet Union. A large contribution towards the UK's Kyoto targets also came from deindustrialisation. However, China, like the USA, did not sign up to the Kyoto Protocol.

International action to control carbon emissions is necessary. One policy is known as 'carbon trading'. Countries agree overall emissions limits and try to create an international market for permits to pollute. The idea is to put a money value on emissions and, over time, to create incentives for businesses to invest in less-polluting technology. As well as the large compulsory 'compliance' market for carbon credits, there is also a smaller voluntary market for 'carbon offsets'.

For example, an organisation can be paid to plant trees to allegedly offset the damage that an airline journey does to the ozone layer. Some companies are using these offsets, together with greater energy efficiency and reduced polluting activities, to claim to be 'carbon neutral'. Some environmentalists and economists are suspicious of offset schemes and claim, for instance, that offset schemes have hidden environmental costs. They argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights.

Source: news reports, 2010

Extract F: Issues over carbon trading

Critics say that carbon trading amounts to 'privatisation of the atmosphere', with property rights in this vast new market being grabbed by speculators or by those who already pollute the most. They also claim that activities such as buying credits from Russia are an 'accounting fraud' because they do not necessarily arise from energy efficiency but from the collapse of heavy industry. There is concern that carbon trading is a further blow to manufacturing and that service industries are treated more leniently. If the UK relies on manufactured imports, it can be argued that factories located in China are actually creating UK emissions.

1

Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel. There is a suspicion that carbon trading might mislead the public into believing that pollution from airlines and other industries is no longer damaging. Governments are accused of being overgenerous in allotting permits to industries that they see as nationally important, such as car manufacturing and electricity generation. While the UK might reduce its domestic demand for carbon, it continues to contribute to the world supply of fossil fuels through activities such as oil prospecting and opencast mining. Russia, China and less-developed countries with coal reserves show few signs of reducing their output of this form of carbon.

5

10

15

Source: news reports, 2010

0 | 5

Using the data in **Extract D**, calculate, to **two** decimal places, the percentage of world CO₂ emissions generated by the UK.

[2 marks]

0 | 6

Explain how the data in **Extract D** show that the USA needs to reduce pollution more than other countries.

[4 marks]

0 | 7

Extract E (lines 18-20) states 'They argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights'.

With the help of a diagram, explain how the absence of property rights can worsen the environmental market failures of **both** pollution **and** the rapid depletion of natural resources.

[9 marks]

0 | 8

Extract F (lines 9-10) states 'Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel'.

Using the data in the extracts and your knowledge of economics, evaluate the possible impact on UK businesses of policies to reduce pollution.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

Either

Essay 1

In August 2013, the UK government argued that there needed to be greater competition in energy markets in the UK.

0 9

Explain why a lack of competition is likely to lead to allocative and productive inefficiency in markets such as the market for energy.

[15 marks]

1 0

Evaluate the view that if markets can be made more contestable there is no need for further government intervention.

[25 marks]

or

Essay 2

The law of diminishing returns is an economic principle which will inevitably affect firms in the short run, whereas it is not always possible for firms to achieve economies of scale.

1 1

Explain how a firm's costs of production are affected by the law of diminishing returns in the short run and how they may be affected by economies of scale in the long run.

[15 marks]

1 2

Evaluate the view that firms will always try to minimise their costs and maximise their revenues.

[25 marks]

or

Essay 3

Over the past 35 years, successive governments have reduced taxes on income whilst increasing taxes on spending, such as excise duties and Value Added Tax (VAT).

1 3

Distinguish between equity and equality **and** explain the effects of this government policy on the distribution of income.

[15 marks]

1 4

Assess the economic costs **and** benefits of government action which results in greater inequality in the distribution of income and wealth in the UK.

[25 marks]

END OF QUESTIONS

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A-level Economics (7136)

Paper 2 National and international economy

Specimen 2015

Morning

2 hours

Materials

For this paper you must have:

- an answer book
- a calculator.

Instructions

- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is 7136/2.
- In **Section A**, answer **either** Context 1 or Context 2.
- In **Section B**, answer **one** essay.

Information

- There are 80 marks available on this paper.
- The marks for questions are shown in brackets.

Section A

Answer **either** Context 1 or Context 2.

Either

Total for this Context: 40 marks

Context 1

Economic growth and development in AfricaStudy **Extracts A, B** and **C** and then answer **all** parts of Context 1 which follow.**Extract A: Macroeconomic indicators for UK and selected African economies, 2012**

Economy	Real GDP growth (% change on previous year)	Real GDP per capita (\$)	Life expectancy (years)	Rural population access to improved water source (%)
UK	0.7	36 617	82	100
Central African Republic	4.1	932	50	76
Egypt	2.2	10 686	70	99
Ethiopia	8.6	1 240	63	42
Zambia	6.7	3 678	57	49

Source: official statistics, accessed on 29 June 2014

Extract B: Living standards

Economic growth in Africa is expected to accelerate in 2014 and 2015. However, this growth is failing to translate into job creation and the broad-based development that is needed to reduce high poverty and rising inequality rates in many countries, the UN has said. 1

Economists can generally agree on the causes of economic growth such as investment, innovation and improvements in productivity. There is greater disagreement over the consequences. An important part of the debate is the impact of economic growth on economic development and living standards. The debate has become more complex as measurement of economic development has become more sophisticated. However, real GDP per capita (income per head) remains one of the basic measures. Various indices, such as the Human Development Index, incorporate a number of factors into their calculations in order to give as comprehensive a view of living standards as possible and to allow more accurate international comparisons. Factors include life expectancy, infant mortality and nutritional levels. 5

Supporters of continued economic growth point to increased employment, greater welfare, more support for the disadvantaged and more resources for health, education and infrastructure. Opponents of unconstrained economic growth point to the rapid depletion of exhaustible natural resources, environmental deterioration and a widening inequality in the distribution of income and wealth. 10

Source: News reports 2013 15

Extract C: Problems in Africa

Many African countries should continue to enjoy strong economic growth and attract investment, especially in oil, natural gas and minerals. In some areas this has been accompanied by a decline in labour unrest. As a result of this economic change, living standards in Africa should improve. However, some parts, noticeably north and central Africa, continue to suffer from political instability and civil war.

1

5

Africa's recent growth has been driven by the increasing production and export of commodities but it remains far below the continent's potential for growth. Meaningful job creation is weak and is not tackling the high rates of poverty in many countries. The informal sector is still large and opportunities remain limited for many seeking to enter the labour market. Continual pressure on labour markets from a steady stream of new entrants due to population growth has also meant that economic growth rates have not impacted strongly on poverty and inequality.

10

When governments squander valuable natural resources, geographic advantages do not always result in sound development, while land-locked African countries often struggle to trade with global economies.

15

Heavy dependence on minerals and agriculture has led to weak job creation in areas such as construction, transport and telecommunications. Political unrest continues to pose a significant threat to economic activity and a reliance on agriculture leaves many countries prone to weather-related shocks.

Source: news reports 2014

0 1

Using the data in **Extract A**, calculate, to the nearest £, the real GDP per capita of the UK in 2012 in pounds, assuming the pound to dollar exchange rate was £1 = \$1.70.

[2 marks]

0 2

Explain how the data in **Extract A** show that a higher real GDP per capita results in greater life expectancy.

[4 marks]

0 3

Extract B (lines 4–5) states: 'Economists can generally agree on the causes of economic growth such as investment, innovation and improvements in productivity'.

With the help of a diagram, explain why investment can lead to increased economic growth.

[9 marks]

0 4

Extract C (lines 6 – 8) argues that: 'Africa's recent growth has been driven by the increasing production and export of commodities but it remains far below the continent's potential for growth. Meaningful job creation is weak and is not tackling the high rates of poverty in many countries'.

Using the data in the extracts and your knowledge of economics, assess the view that sustained economic growth is likely to improve living standards in African countries.

[25 marks]

Do not answer Context 2 if you have answered Context 1.

or

Context 2

Total for this Context: 40 marks

The Balance of Payments

Study Extracts D, E and F and then answer all parts of Context 2 which follow.

Extract D: UK trade figures and real GDP growth 2006 - 2012

	UK trade balance			Real GDP (% change on previous year)
	Trade in goods (£ million)	Trade in services (£ million)	Balance of trade in goods and services (£ million)	
2006	-76 842	41 643	-35 199	2.8
2007	-90 535	53 802	-36 733	3.4
2008	-94 261	61 689	-32 572	-0.8
2009	-82 933	59 560	-23 373	-5.2
2010	-98 585	65 733	-32 852	1.7
2011	-100 092	76 832	-23 260	1.1
2012	-108 700	75 319	-33 381	0.3

Source: official statistics, accessed on 08 July 2014

Extract E: Re-balancing the UK economy

The UK government wants to re-balance the economy more towards investment, manufacturing and exports, and away from consumption and government spending. Manufacturing only accounts for around 11% of what is produced in Britain, while the service sector accounts for over three-quarters of UK GDP. 1

Britain, which until recently exported more to Ireland than to the combined BRIC economies (Brazil, Russia, India, and China), wants to export more to emerging economies and help its companies access the fastest-growing markets in the world. 5

In 2012, Britain's trade deficit hit its highest level since 2007. The hope was that with sterling having lost about a quarter of its value since the financial crash five years previously, this depreciation would have boosted exports in the same way that it did during the early 1990s, when the pound depreciated after a sterling crisis. The last time that Britain had a trade surplus was towards the end of that decade, in 1997. 10

Source: news reports, February 2014

Extract F: Warning on UK's current account deficit

The UK is one of only eight countries to see its current account deficit increase since 2008, and its deficit has increased the most. Should overseas investors be worried? The UK has lived with large current account deficits for decades. From the 1940s to the early 1970s, when the country was operating a fixed exchange rate system, the UK was forced to use contractionary policies to keep the balance of payments in check and had to devalue the pound sterling in 1949 and 1967. From the 1980s onward, with the exchange rate floating, persistent current account deficits stopped being a cause for concern.

In the boom years before the global financial crisis, the current account deficit remained large, exceeding 3% of GDP in 2006. With hindsight, this should have rung alarm bells that the economy had become seriously unbalanced, with foreign money flowing into the UK to fund unsustainable public and private sector consumption rather than investment. After the crash, it was widely assumed that the UK economy would recover through higher exports and higher business investment. Indeed, the government's 2010 budget forecasted a current account surplus of 0.9% in 2013, driven by a surge in exports. This forecast proved highly inaccurate as the current account deficit increased.

Although surveys show that business confidence is high, investment fell in the year to the end of September 2013, and the UK's export performance has been poor, despite the depreciation of sterling by approximately 25% in the immediate aftermath of the financial crisis. In contrast, other European economies have seen strong export growth.

The UK's large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation.

Source: news reports, February 2014

0 | 5

Assume that in 2012 the net primary income balance was a deficit of £2,154 million and the net secondary income balance was a deficit of £23,055 million. Using the data in **Extract D**, calculate the current account balance for the UK for 2012.

[2 marks]

0 | 6

Explain how the data in **Extract D** show that increasing growth in real GDP frequently leads to an increased deficit in the balance of trade in goods and services.

[4 marks]

0 | 7

Extract E (lines 8–10) states that: 'The hope was that with sterling having lost about a quarter of its value since the financial crash five years previously, this depreciation would have boosted exports ...'

With the help of a diagram, explain how a boost to exports would help the recovery of the UK economy.

[9 marks]

0 | 8

Extract F (lines 21–22) states: 'The UK's large current account deficit cannot be ignored easily, and research shows that such deficits are reduced eventually through some combination of slower growth and currency depreciation'.

Using the data in the extracts and your knowledge of economics, evaluate the significance of a large and persistent deficit on the current account of the balance of payments for the UK economy.

[25 marks]

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

Either

Essay 1

In May 2014, the European Central Bank (ECB) President, Mario Draghi, warned that there was a risk of deflation across economies in Europe.

0 9

Explain why deflation may occur in an economy.

[15 marks]

1 0

Evaluate the view that the UK government should give higher priority to preventing deflation rather than controlling inflation.

[25 marks]

or

Essay 2

Many people were surprised when UK unemployment fell during 2013. The government's policy of deficit reduction was expected to prevent significant falls in unemployment and some called for the government to reverse its policy of planned cuts in expenditure.

1 1

Explain why low unemployment is a key objective of economic policy for the UK and most other governments.

[15 marks]

1 2

Evaluate the view that a policy of budget deficit reduction will make it harder to reduce unemployment further.

[25 marks]

or

Essay 3

Although international trade has benefited UK consumers greatly over the last century, improvements in transport mean it is becoming more difficult for UK firms to compete against low-cost foreign producers.

1 3

Explain why international trade has benefited UK consumers.

[15 marks]

1 4

Discuss the view that protectionist policies should be introduced to protect UK firms.

[25 marks]

END OF QUESTIONS

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Specimen material
(second set)



A level

Economics

Specification (7136)

Paper 3 Economic principles and issues

Specimen Paper 2015
Source booklet

The National Minimum Wage (NMW) after 15 years

- Extract A: The role of the National Minimum Wage
- Extract B: The National Minimum Wage to rise to £6.50 in October 2014
- Extract C: International comparison of adult minimum wages by country
- Extract D: Calls for employers to commit to paying the Living Wage as the pay gap widens
- Extract E: The National Minimum Wage: silver bullet or poisoned chalice?

The National Minimum Wage after 15 years

Extract A: The role of the National Minimum Wage

The purpose of the NMW is to provide a wage floor, in order to protect low-paid workers against exploitation, without causing job losses. Many economists have been wary of statutory minimum wages: unless they raise the price of labour at the bottom of the wage distribution above what it would otherwise be they are pointless; but if they raise it then the fear is that they will curb demand for labour, and curb it to the particular detriment of the least skilled.

However, others have pointed out that labour markets are not perfectly competitive. There are costs and risks for workers who want to change jobs, and some employers enjoy a degree of monopsony power in local labour markets. As a result workers may be paid at levels below the market-clearing rate. The implication is that a statutory wage floor may raise the pay of the lowest earners without adverse employment effects. The challenge is to set the level as high as possible short of causing people to lose jobs.

Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Extract B: The National Minimum Wage to rise to £6.50 in October 2014

Will a rise in the National Minimum Wage (NMW) damage the competitiveness of the UK economy? Representatives of businesses in the UK have claimed that the recently announced 3% increase in the National Minimum Wage is 'unwelcome in today's economic climate'. Critics of the increase maintain that 'it is essential that businesses remain competitive and that the above inflation increase in the NMW will add significantly to business costs'. Yet competitiveness is not just about wages, it also, for example, depends on productivity, the exchange rate and innovation.

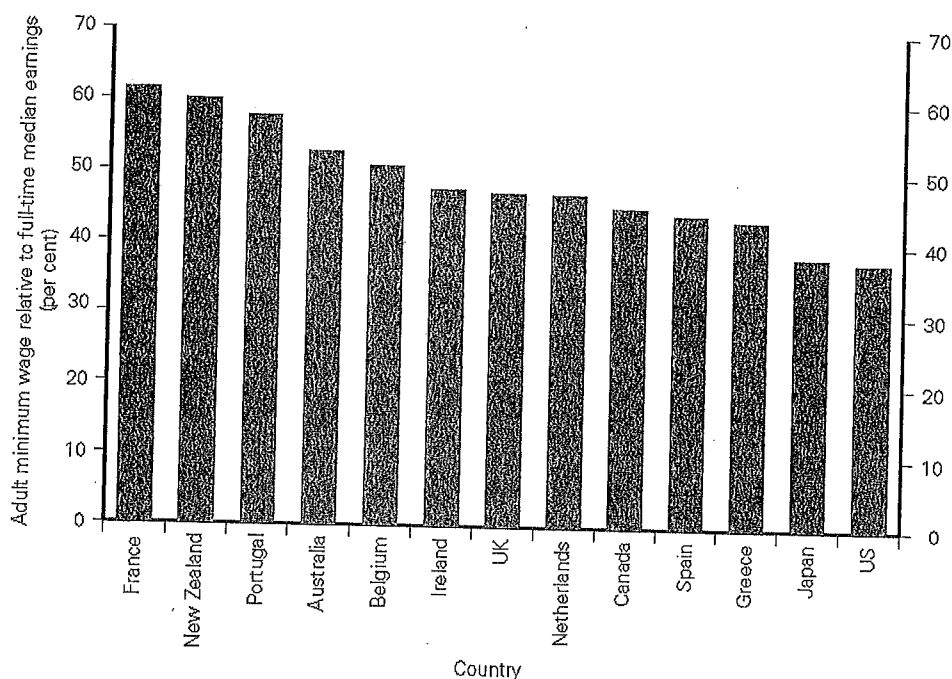
Source: News Reports accessed May 2104

Extract C: International comparison of adult minimum wages by country, December 2013

Country	Minimum wage in UK £s, using purchasing power parity exchange rates
Australia	7.79
France	7.77
Belgium	7.02
Netherlands	6.97
Ireland	6.80
New Zealand	6.35
UK	6.31
Canada	5.89
USA	5.31
Japan	4.80
Spain	3.48
Greece	3.40
Portugal	2.91

Source: Extracted from National Minimum Wage - Low Pay Commission 2014

Adult minimum wages relative to full-time median earnings, by country, 2012



Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Some countries, such as China and India, do not have a single national minimum wage. In China, each province sets its own minimum wage to reflect local conditions. In November the hourly rate in Beijing was equivalent to approximately £1.74, whereas in Hunan it was around £0.93.

International comparisons of productivity, final estimates for 2012

Current price GDP per hour worked

UK = 100

Canada	105
France	132
Germany	131
Italy	111
Japan	89
UK	100
USA	135
G7 average	120

Source: ONS 20 February 2014

Turn over for Extracts D and E

Extract D: Calls for employers to commit to paying the Living Wage as the pay gap widens

<p>The TUC, the Archbishop of Canterbury and Boris Johnson, the Mayor of London, are just a few of those who have called on employers to pay their workers a living wage. The Living Wage is defined as 'the wage that can meet the basic needs to maintain a safe, decent standard of living within the community'. The Living Wage differs from the minimum wage in that the latter is set by law and may fail to provide people with enough income to have a reasonable quality of life. It has been claimed that five million people are paid less than the Living Wage, which is estimated at £8.80 an hour in London and £7.65 elsewhere.</p>	<p>1</p>
<p>Proponents argue that paying the Living Wage means workers can live with dignity and not just exist. By paying the Living Wage, employers can lift their employees out of poverty, debt, and illness, which will improve family life. Employers benefit because it is easier to recruit and retain staff, productivity increases, and there is a reduction in sickness and absenteeism. Government spending on welfare is also reduced. Everyone is a winner.</p>	<p>5</p>
<p></p>	<p>10</p>

Source: News Reports accessed May 2104

Extract E: The National Minimum Wage: silver bullet or poisoned chalice?

<p>Since its introduction in 1999, the NMW has increased by 75%, whilst average earnings have risen by 61% and the Retail Price Index by 53%. A new report, published by the Institute of Economic Affairs, argues that the NMW should be abolished for apprentices and under 18-year-olds in the UK to tackle persistently high youth unemployment. The rate for 16 and 17 year olds is due to rise to £3.79 per hour in October 2014 and to £2.73 per hour for apprentices. The authors of the report also believe that setting a single NMW is likely to have adverse effects on private sector employment in the regions. In Wales, for example, the NMW is 70% of median hourly earnings in the private sector, compared to just 42% in London. The report recommends that the minimum wage should be regionalised. When determining the minimum wage for each region, differences in productivity and economic conditions should be taken into consideration.</p>	<p>1</p>
<p></p>	<p>5</p>
<p></p>	<p>10</p>

Source: News Reports accessed May 2104

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Extract A: Source: The Future Path of the National Minimum Wage - Low Pay Commission 2014

Extract C: Source: Extracted from National Minimum Wage - Low Pay Commission 2014; The Future Path of the National Minimum Wage - Low Pay Commission 2014; ONS 20 February 2014

Extract B, D & E: Source: News Reports accessed May 2104

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

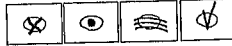
Answer **all** questions in this section

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

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

CORRECT METHOD

WRONG METHODS



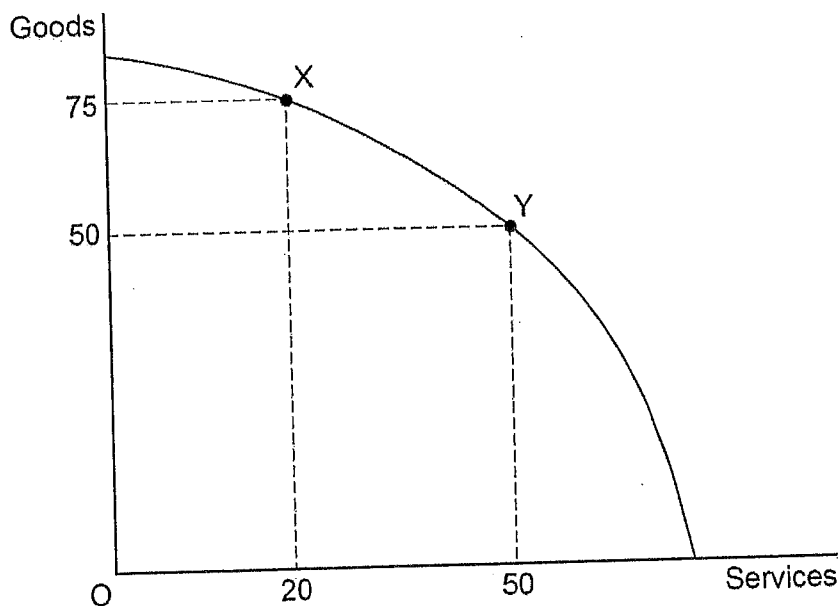
If you want to change your answer you must cross out your original answer as shown.

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?

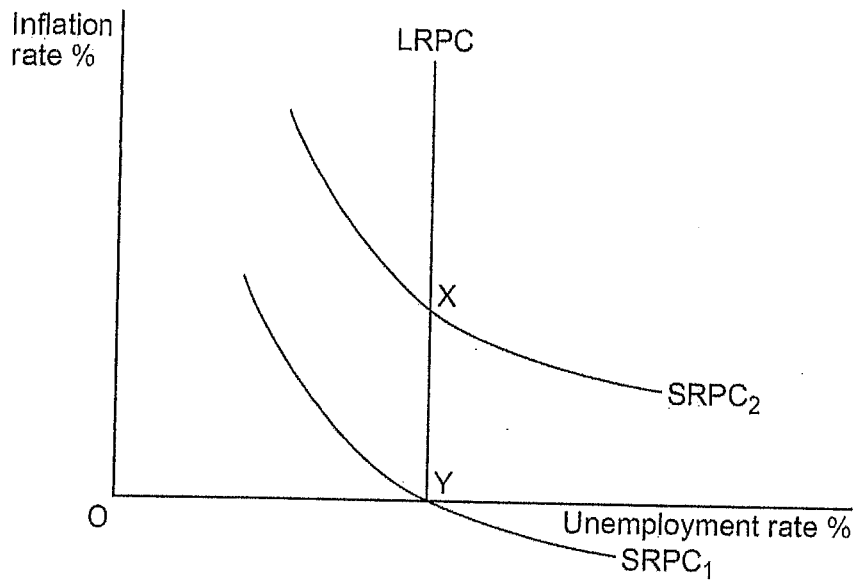


- A Point Y is allocatively efficient but Point X allocatively inefficient
- B Point Y is productively efficient but Point X productively inefficient
- C The opportunity cost of producing more goods, in terms of services, is greater at Point Y than at Point X
- D The opportunity cost of producing more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

0 3

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]

0 4

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]

0 5

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]

0 6

The price elasticity of demand for labour measures the responsiveness of

- 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]

0 7

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

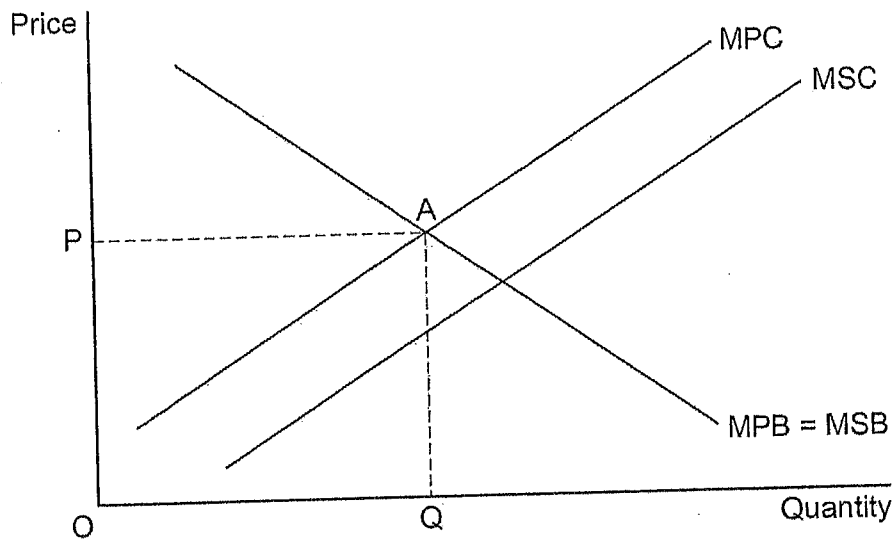
- A GDP per capita figures
- B Balance of payments figures
- C Life expectancy
- D Literacy rates

[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]

0 9

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

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]

1 0

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]

1 1

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

Bond Prices

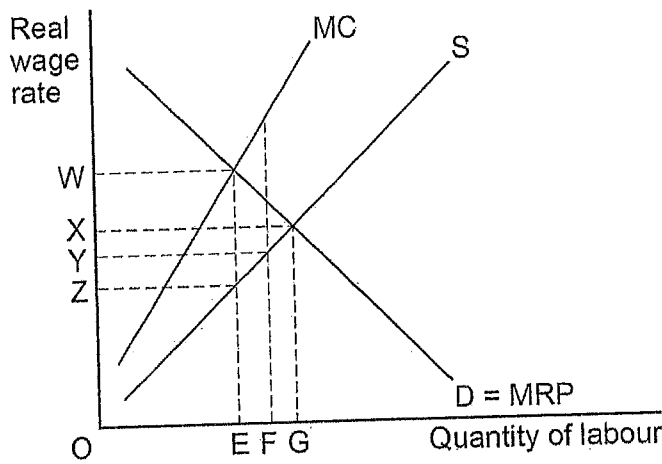
Long-term interest rates

- | | | | |
|---|---------|---------|-----------------------|
| A | Rising | Rising | <input type="radio"/> |
| B | Falling | Rising | <input type="radio"/> |
| C | Rising | Falling | <input type="radio"/> |
| D | Falling | | <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]

1 3

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

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]

1 4

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]

1 5

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]

1 6

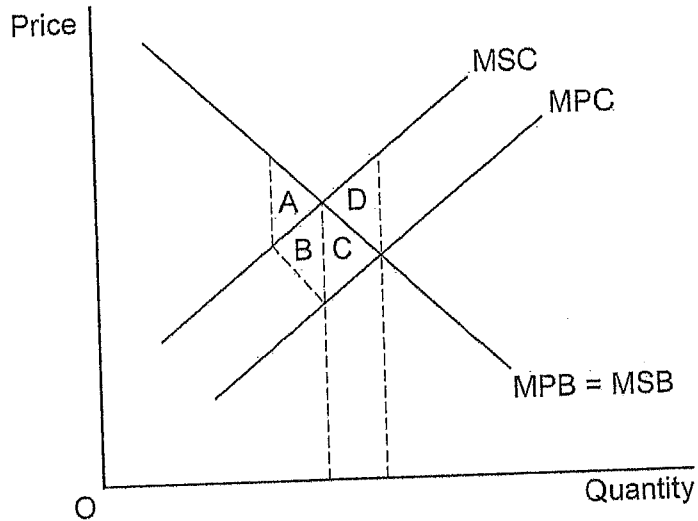
Behavioural economic theory suggests that when consumers are faced with complex financial decisions, such as choosing between pension schemes, social welfare is likely to increase if consumers are

- 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]

1 7

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]

1 8

Profit maximising monopolies are said to be allocatively inefficient due to

- 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]

1 9

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

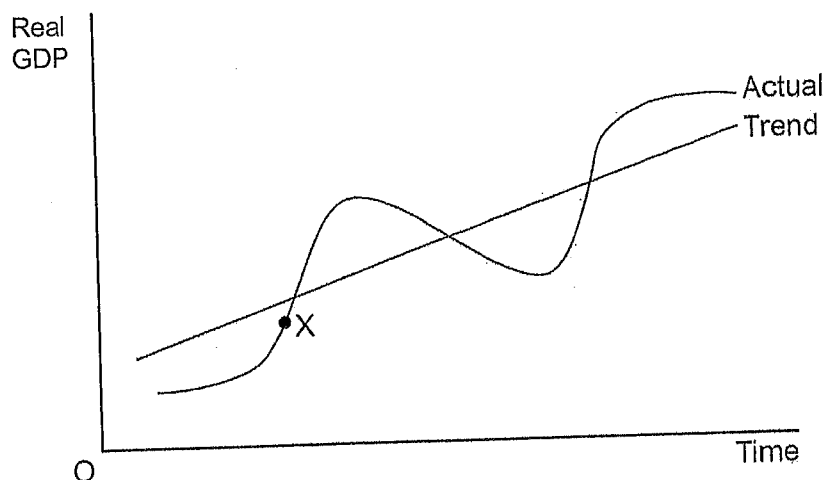
- A Cyclical
- B Structural
- C Frictional
- D Voluntary

[1 mark]

Turn over for the next question

2 0

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]

2 1

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

- 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

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?

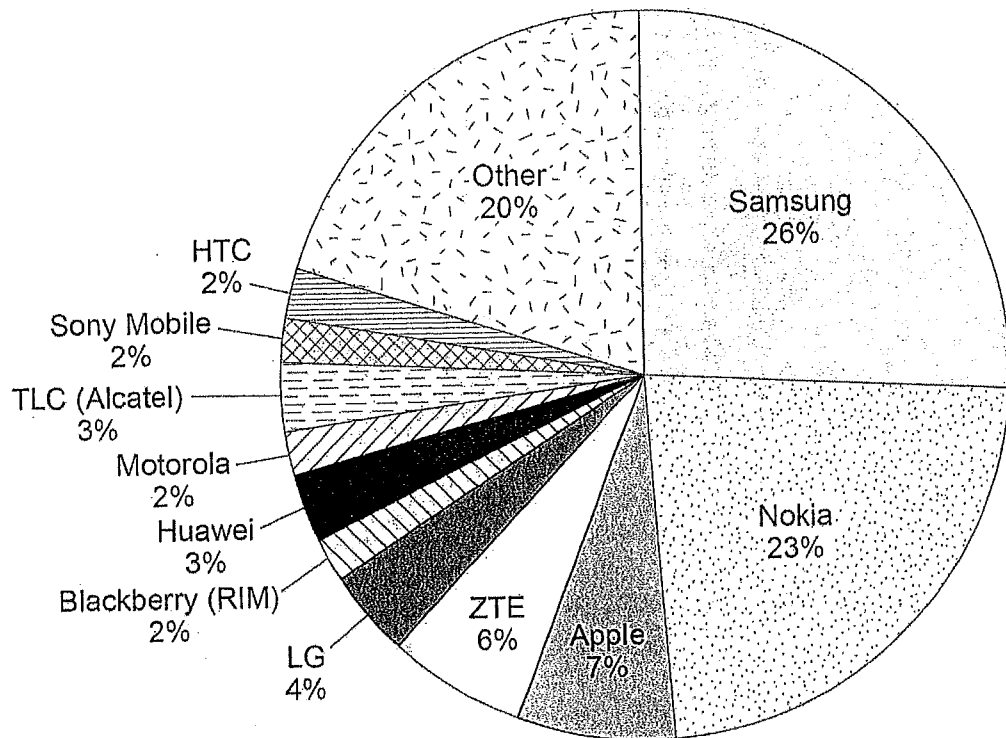
- A Less than 10 years
- B 10 years
- C More than 10 years
- D Depends on the two economies' inflation rates

[1 mark]

Turn over for the next question

2 4

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



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

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

[1 mark]

2 5

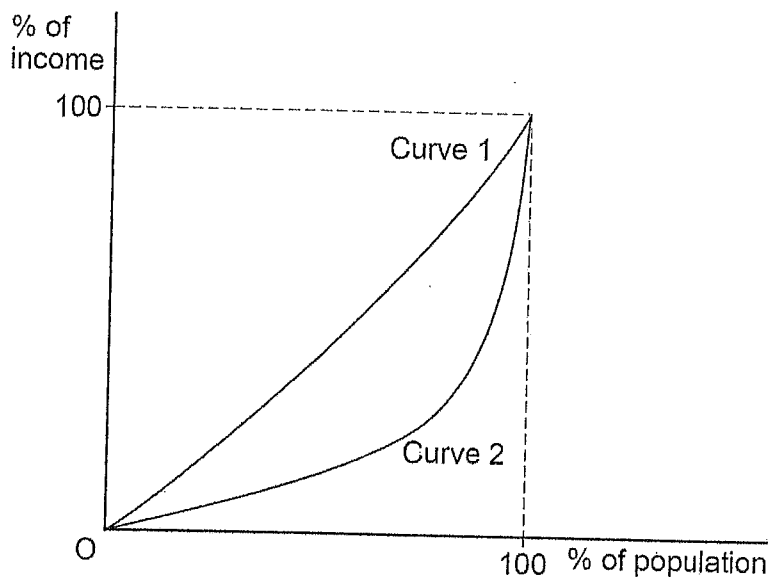
Which one of the following statements about fiscal policy is **not** true?

- 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]

2 | 6

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?

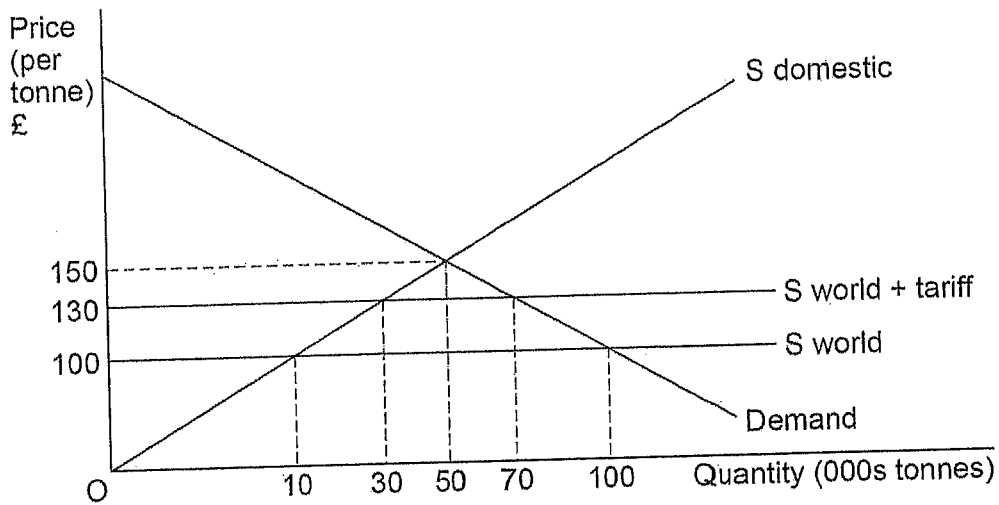
- A Reduced welfare expenditure and reduced taxes on higher earners
- B Increased welfare expenditure and increased taxes on higher earners
- C Increased tax allowances for low earners and increased welfare expenditure
- D Lower taxes on expenditure with reduced taxes on low earners

[1 mark]

Turn over for the next question

2 | 7

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]

2 | 8

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]

2 9

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]**3 0**

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

