

Practice Paper Set 1: AQA Economics 7136/01

A Level: Markets and Market Failure

2 hours; Maximum marks: 80

Section A

Answer **EITHER** Context 1 **or** Context 2

CONTEXT 1

Total for this Context 40 Marks

Study Extracts A1 and A2 then answer all parts of Context 1 which follow

Extract A1

A November 12th 2016 article in *The Grocer* magazine revealed that Tesco Finest Scottish Raspberry yoghurt contains 5 teaspoons of sugar (19 gm). Others, such as Oreo Vanilla Yoghurt and Muller Corner Toffee Hoops ‘yoghurt’ contained even more, but at least the names gave an indication. With a raspberry yoghurt the sugar content is more of a surprise.

Now, on behalf of the government, Public Health England has met with retailers and manufacturers to tackle the obesity issues relating to the £2 billion a year market in yoghurts. Unlike soft drinks, it has escaped a punishing tax. But the yoghurts category is under pressure to make sweeping changes as part of the ‘war on sugar’. The plan is to reduce the maximum size of a single-serve yoghurt pot to 125 grammes, and to cap the sugar content to 11gms (2.5 teaspoons). This will be done through a voluntary programme with the producers, plus a ‘nudge’ to consumers. *Adapted from The Grocer 12/11/16*

In a separate report, industry sources suggested that company market shares in the UK yogurt market are as follows:

Muller: 29%

Danone: 17%

Nestle: 9%

Yoplait: 9%

All others: 36% (including own label: 26%)

Extract A2

In their book ‘Nudge’, Sunstein and Thaler argue that it is legitimate for both markets and governments “to influence people’s behavior in order to make their lives longer, healthier, and better”. However, they argue that the most important applications of nudge theory often lie with governments rather than markets. They assert that markets frequently exploit individuals’ decision-making flaws, as the following statement makes clear: “The key point here is that for all their virtues, markets often give companies a

strong incentive to cater to (and profit from) human frailties, rather than try to eradicate them or to minimize their effects". Thaler and Sunstein acknowledge that government policymakers are also subject to various imperfections, but they believe that the non-coercive nature of nudges mitigates many of these concerns.

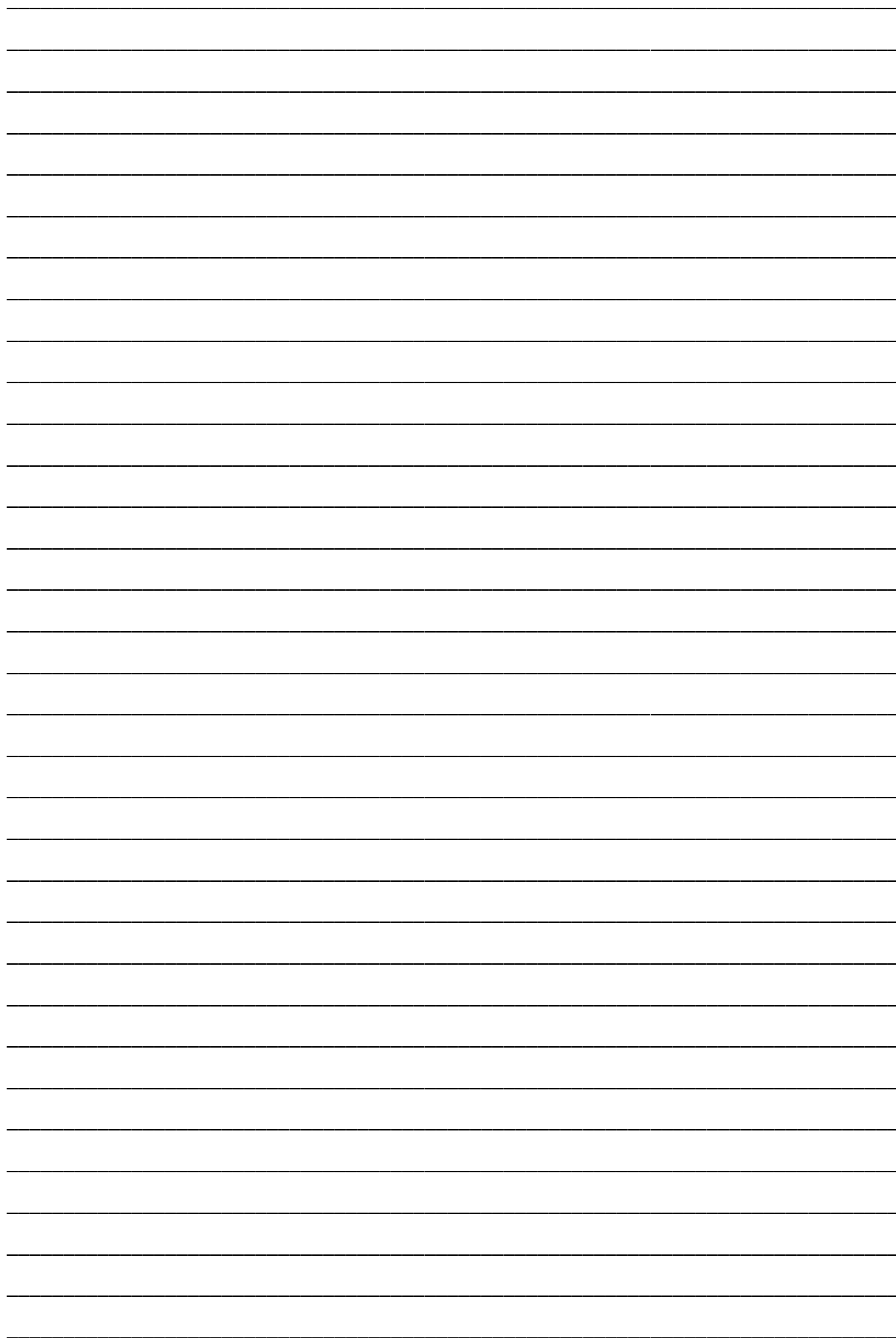
Thaler and Sunstein define a nudge as "any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting fruit at eye level counts as a nudge. Banning junk food does not." Nudges are thus not meant to sacrifice the freedom to make our own choices and should not impose significant burdens on those who do not follow or need them.

Source: Adapted from 'Weight Loss Nudges', Professor Michael Marlow, September 2014

1. Using the data in Extract A1 to calculate the sales total (in £s) for the 4 largest firms in the market for yoghurt. [2 marks]

2. With reference to Extract A1, explain the possible purpose behind 'a nudge to consumers'. [4 marks]

3. Using a diagram, explain the impact on the revenue generated by Yoplait yoghurt if changes to its recipe make the yogurt less distinctive. [9 marks]



Do not answer Context 2 if you have answered Context 1

CONTEXT 2

Total for this Context 40 Marks

Study Extracts B and C and then answer all parts of Context 2 which follow

Heathrow expansion

Extract B

The UK faces a choice on airport capacity – expand Heathrow or do nothing and see the UK’s position as a great trading nation diminished.

The Airports Commission was tasked with recommending the best way to maintain the UK’s position as Europe’s most important aviation hub and it decisively found that Heathrow was the answer, with the UK benefits estimated at up to £211bn in economic benefits (UK GDP estimated at £1.829 Trillion in 2015) and 180,000 jobs.

Why the UK needs a hub airport with more capacity

Heathrow, the UK’s hub, is at capacity today and is losing routes to other European hubs. As a hub, Heathrow serves long-haul business destinations by pooling demand from across the UK regions and nations, Europe, other international and business passengers, and cargo – making more flights and routes viable for all.

Gatwick by contrast operates a point-to-point model that serves mainly short-haul and leisure destinations. The capacity debate has never been about Heathrow versus Gatwick, but about who is best placed to help Britain win in a competitive race against France, Germany, Holland, Turkey and the Gulf States. Only Heathrow can connect the UK to long-haul growth markets by utilising transfer passengers to make more routes financially viable for airlines.

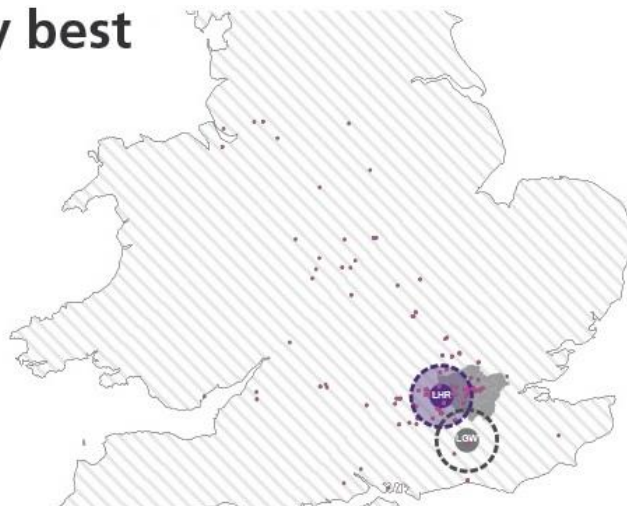
The uniqueness of hubs is shown by the spare capacity elsewhere in the London system. There is spare capacity at point-to-point airports in London including Gatwick (22%), Stansted (45%) and Luton (20%).

Why Heathrow is best placed to deliver jobs, more exports and business.

The centre of economic gravity is to the west of London. 120 of the UK’s top 300 company HQs are within a 15 mile radius of Heathrow, compared to just 16 within 15 miles of Gatwick.

Heathrow is already best placed for business

120 of the UK’s top 300 company HQs are within 15 miles of Heathrow



Only an expanded Heathrow can continue to connect business in the UK to global growth

The Thames Valley has 60% more international businesses than the national UK average, 100% more US businesses and 260% more Japanese businesses. More businesses are located closer to Heathrow as they recognise the greater long-haul connections and surface access it has – making it easier for them to do business around the globe.

Heathrow will help more UK businesses go global with a third runway as it already carries more freight exports and imports than every other UK airport combined, and cargo facilities will be doubled as part of our plans.

In 2014 alone, £101bn worth of long-haul export goods travelled through Heathrow – more than the combined amount through the UK's two biggest shipping ports, Felixstowe and Southampton. *Source: Your Heathrow.com – The Case for Heathrow*

Extract C

Britain finally confronted the point of a decision on a difficult question that it had ducked for far too long. Or, at least, that is how the Airports Commission presented its endorsement of an extra runway at Heathrow. A few voices were raised about the “environmental” effect, in the sense of the immediate local environment – questions of noise, of birdlife and the extra fumes that could soon be inhaled by the suffering lungs of Middlesex. These are all real issues, but together with the diversionary debate about “where” rather than “whether”, they pale besides aviation's contribution to global warming. If there is a difficult question that has been ducked for too long, then that is the one about decarbonising the economy.

To be fair to Sir Howard Davies, his commission did not ignore carbon. The report predicated its projections of passenger growth on two scenarios, both of which it said could respect UK carbon obligations. The first involved a rigid cap on aviation emissions, a little above current levels. The commission stuck a finger in the air and ventured that this might be compatible with a 61% rise in passengers by 2050, a calculation that must rely on engineering advances easing the energy-intensive physics of lifting people and machinery into the air. The emphasis, however, and the basis for arguing that increased capacity was not merely desirable but imperative, was on a second, fairytale future, in which passengers double, under the auspices of comprehensive and globally enforced carbon trading.

At a time when European integration is under strain, the invitation here is to imagine that something akin to the EU emissions trading system is first extended to the rest of the world, and then made so much more effective that the carbon price rises from a few euros a tonne to something in the hundreds. If all this can be put into practice, then, the theory runs, the value of UK flights will be such that the aviation sector will be able to outbid British factories and foreign enterprises in the scramble for carbon rations. That is a dubious proposition. For all the talk of Heathrow as an engine of growth, many of the new jobs would be low-tech and low-pay: serving the coffee in another coffee shop, or lugging more suitcases out of planes. The official figures confirm that the proportion of flights dedicated to business is lower than it was at the dawn of the millennium, the result not only of passing recession, but also the march of things like Skype, which allow more business meetings to be held online.

Seeing as – in all likelihood – the price of carbon is not going to rise to the point where the climate problem is fixed, the pertinent question is whether the actual price of flying is going to get closer or further away from where the planet would want it to be. Building more capacity is

going to reduce the cost of taking an extra flight: that is its principal aim. It will mean more people choosing to fly, rather than holidaying closer to home, or taking the train.

In 2009, the then leader of the opposition, David Cameron stood against expanding Heathrow, linking his opposition to support for high-speed rail and a decline in air travel.

Source: Adapted from The Guardian Newspaper “*The Guardian view on expanding Heathrow: just say no*” 1st July 2015

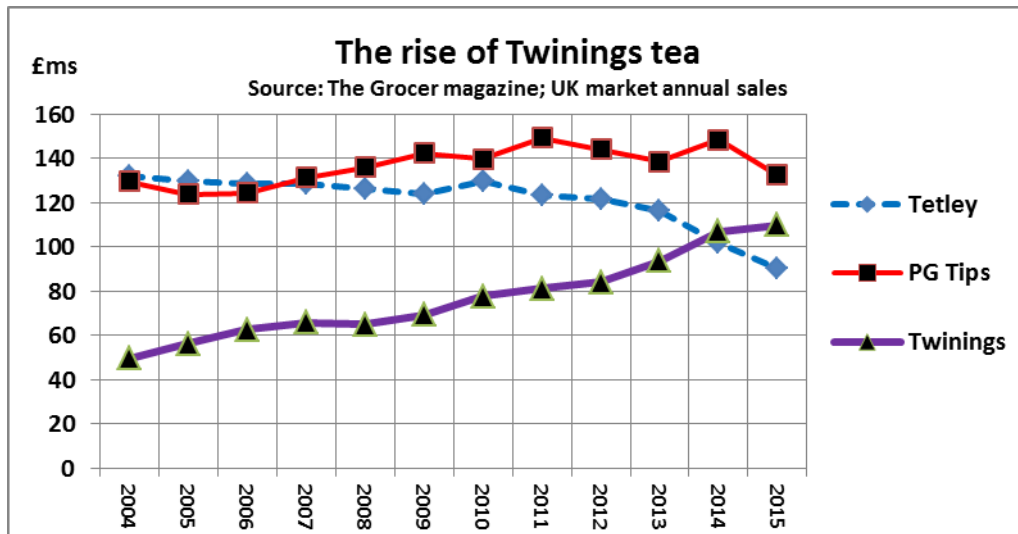
5. Using the data in extract B, calculate the percentage of total GDP estimated to be gained from the building of a third runway at London Heathrow. [2 marks]

6. With reference to extract C, explain what is meant by an external cost. [4 marks]

7. Using a diagram to support your answer, explain the impact of increasing the number of flights into Heathrow airport. [9 marks]

OR

Essay 2



Despite charging higher prices, Twinings Tea has gained market share against PG Tips and Typhoo, both with its fruit teas and also with its 'Everyday Breakfast Tea'. It is likely to become the market leader in 2017.

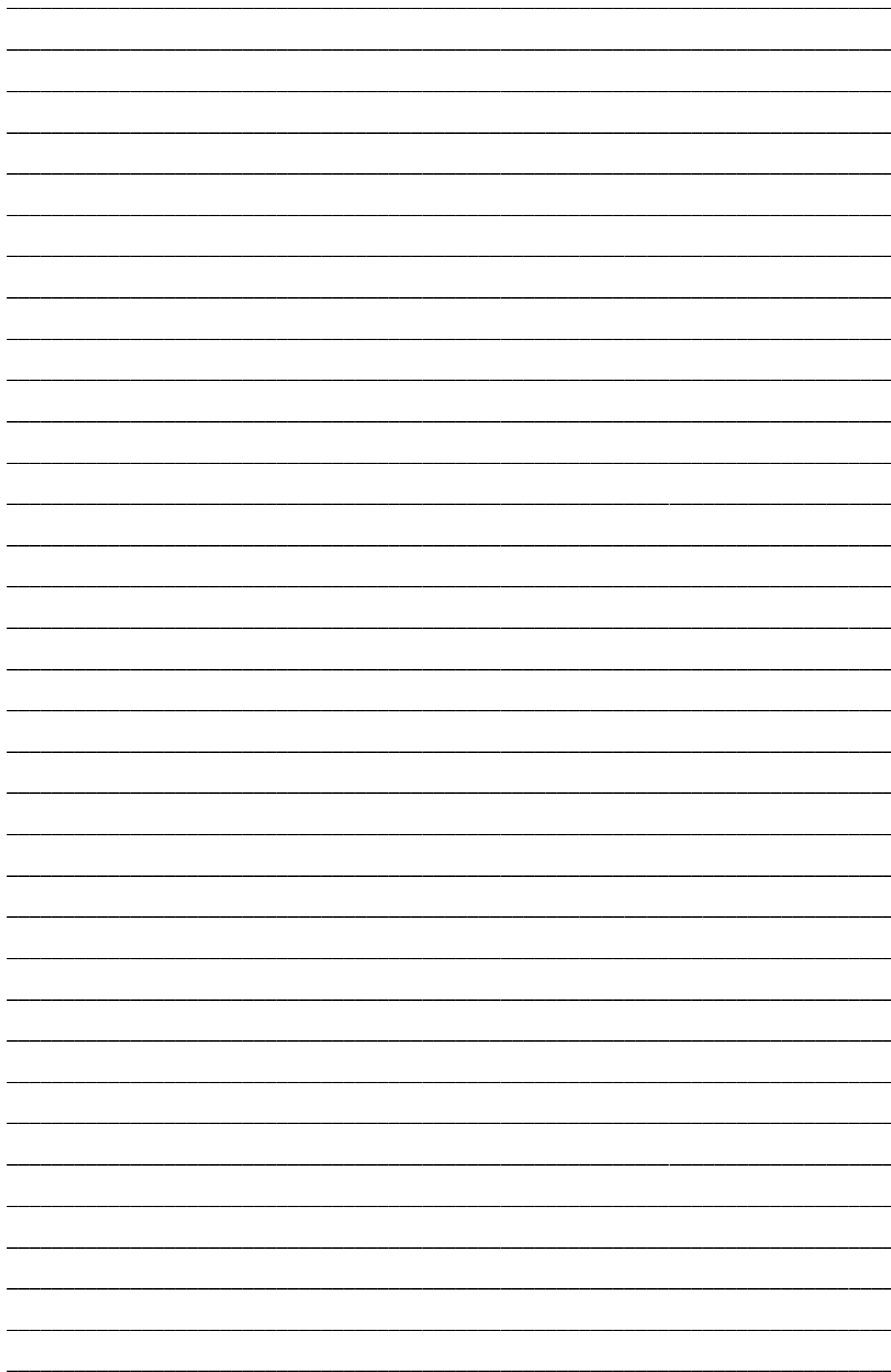
- 11. Explain the circumstances in which it may be helpful to present graphical data indexed to a base period. [15 marks]
- 12. Evaluate the factors that might influence the price elasticity of demand for Twinings tea. [25 marks]

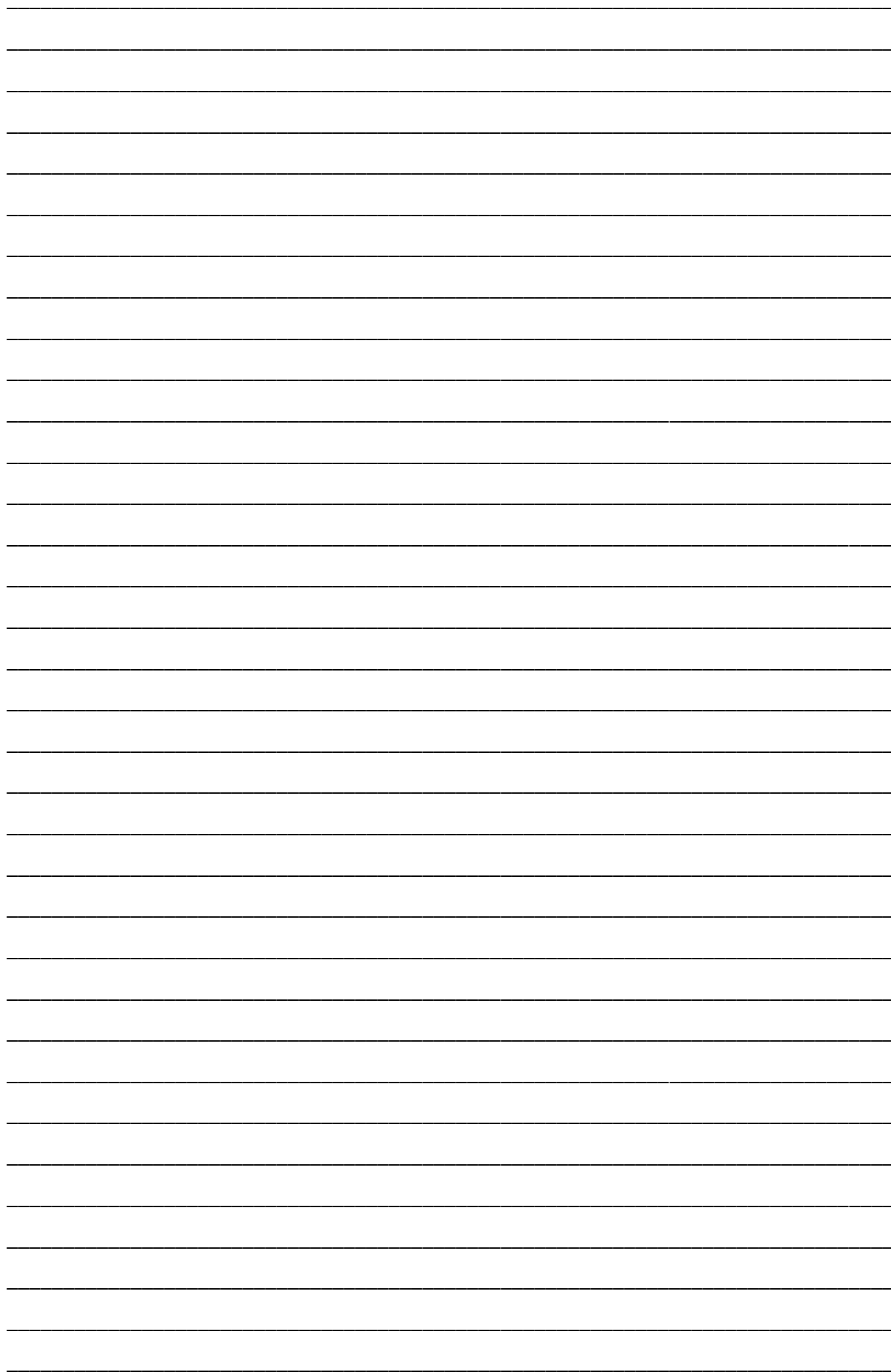
OR

Essay 3

- 13. Explain the factors that determine the demand for tattoos [15 marks]
- 14. Evaluate the determinants of the market structure that best resembles the tattoo artist market. [25 marks]

State the Essay you are doing (1, 2 or 3) _____





End of Exam

Practice Paper Set 1: AQA Economics 7136/02

A Level: National and International Economy

2 hours; Maximum marks: 80

Section A

Answer **EITHER** Context 1 or Context 2

CONTEXT 1

Total for this Context 40 Marks

Study Extract A and then answer all parts of Context 1 which follow

Figure one



Economist.com

Extract A: The problem of a one-size fits all monetary policy in the euro area is back.

THE swings in Ireland's economic fortunes have been wilder than for most. Just look at the labels it has attracted. In 1988 it was dubbed the "poorest of the rich" by this newspaper. By the 1990s it had transformed itself into the Celtic Tiger, Europe's answer to the fast-growing economies of emerging Asia. In the 2000s it was turbo-charged by the low interest rates that came with membership of the euro (some called it a "euro-bubble" economy). But by the end of 2010 it was a ward of the IMF, as its twin housing and credit booms turned to bust. Now its speedy recovery from the crash has earned Ireland a new title: the Celtic Phoenix.

A hyper-globalised economy is one explanation for this whiplashing. Exports are 114% of GDP, and since the late 1980s Ireland has encouraged foreign direct investment, often from American firms. But another factor is the euro area's one-size-fits-all monetary policy. Ireland is too small to affect the fortunes of the overall euro-zone economy, and thus the decisions of the European Central Bank (ECB). Low interest rates caused it trouble before; and, on its current trajectory, Ireland will soon once again be an economy ill-suited to the ECB's monetary tailoring. Other small and open economies, such as the Baltic states, Cyprus and Malta may eventually face a similar problem. To stabilise their economies, all these countries

will have to lean more heavily on other tools to regulate excessive credit, as well as on fiscal policy. Unfortunately, the early signs are that Ireland has only learned half that lesson.

Start with policies to curb credit growth. A first line of defence is the proper regulation of banks. In the bubble years, Ireland was a poster-child for what not to do. Most of its problems stemmed from one bank, Anglo Irish. Feeble regulators allowed its lending book to grow at a wildly imprudent rate, with loans heavily concentrated in commercial property. Today, Ireland has independent-minded economists at the helm of its central bank—Patrick Honohan, the current head, and Philip Lane, who takes over from him this month.

They are already showing mettle. The central bank has used macroprudential tools in response to a burst of house-price inflation, placing caps on the value of loans that banks can extend in relation to the value of homes and to borrowers’ income. The trouble is that these tools are largely untried and their efficacy unknown. In places such as Sweden, measures of this sort have failed to restrain soaring house prices.

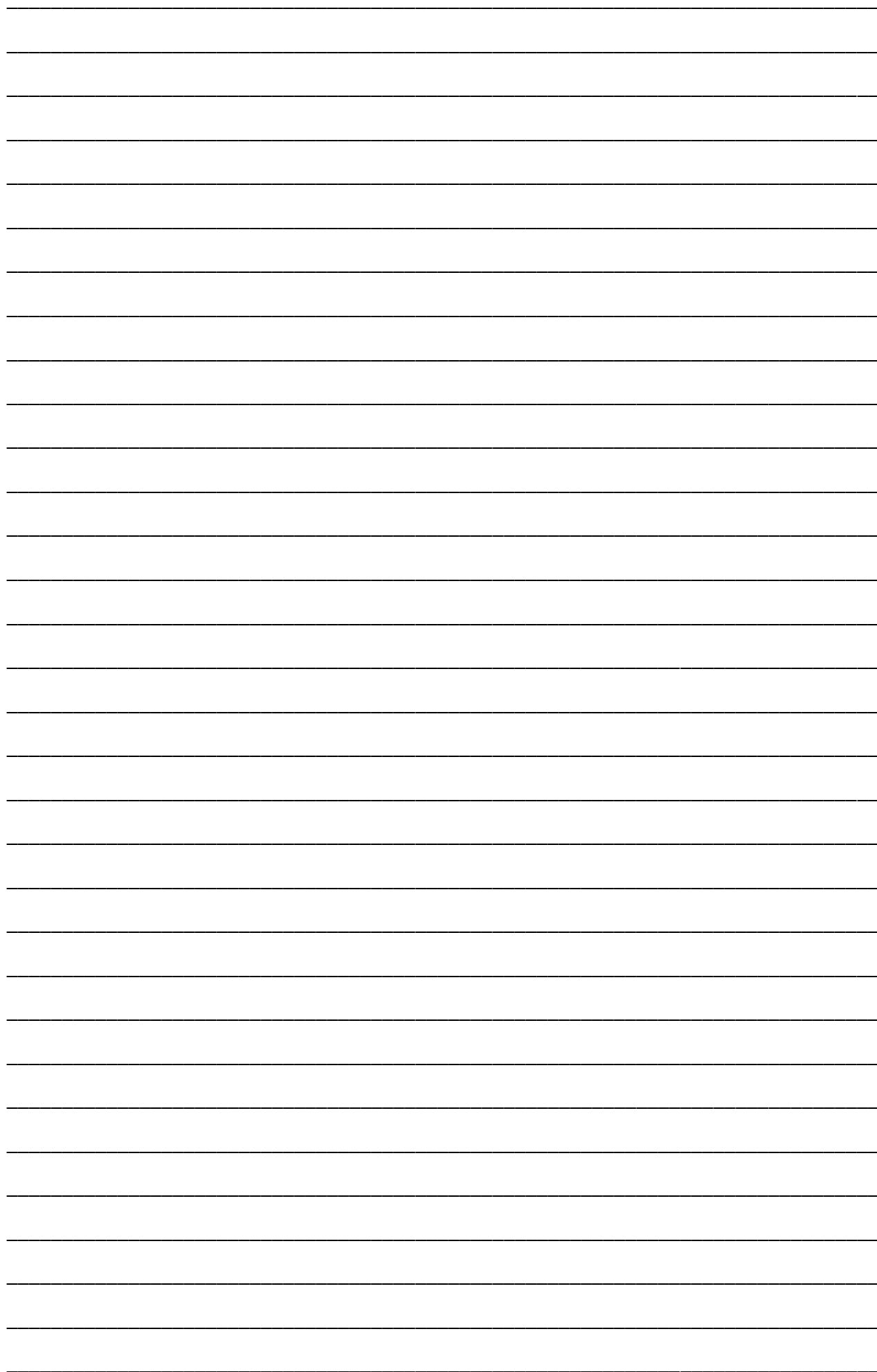
Other tools are also needed, chief among them fiscal policy that leans against the business cycle by raising taxes or cutting spending in a boom. Charlie McCreevy, Ireland’s finance minister between 1997 and 2004, scorned that idea. “When I have the money, I spend it. When I don’t, I don’t,” he once said. Sadly, there are already signs that the McCreevy doctrine still holds sway in Ireland. The recent budget, the last before elections in the spring, diverts stronger-than-expected corporate-tax receipts into extra spending worth 0.7% of GDP this year, and allows a similarly sized boost from tax cuts and additional expenditure in 2016. That is a mistake. Policymakers should at least let the budget’s “automatic stabilisers”—the waxing and waning with the cycle of tax receipts and spending on unemployment benefits—operate freely.

Lax budgetary policy was not a prime cause of Ireland’s bubble economy in 2000-07. But the crash that followed the boom would have been less painful if Ireland had had more fiscal insurance to draw upon. Given the inherent limitations of the euro area’s single monetary policy, such insurance may well be needed again.

Source: Adapted from The Economist 21st November 2015

- 1. With reference to Figure 1, calculate the percentage change in unemployment from 2012 to 2015. [2 marks]

- 2. With reference to extract A, explain what is meant by a *Central Bank*. [4 marks]



a year, a fiscal deficit forecast to reach 7% of GDP by the end of the year and depleted foreign-exchange reserves. “The country was in a situation where it couldn’t continue without a resolution,” says Maximiliano Castillo, director of ACM, an economic consultancy.

The unclamping of foreign exchange will bring immediate benefits. Farmers had been hoarding grain—in sacks 60 metres (200 feet) long—in response to steep export tariffs imposed by Ms Fernández’s government and in anticipation of the peso’s devaluation. On December 14th Mr Macri scrapped export tariffs on agricultural products such as wheat, beef and corn and reduced from 35% to 30% the tariff on soya, Argentina’s biggest export. The lifting of currency controls will further encourage exports of hoarded grain. Grain exporters assured Mr Prat-Gay that sales will bring in \$400m a day over the next few weeks.

Multinationals operating in Argentina will also get relief. In November American Airlines—which flies 27 times a week to Buenos Aires—stopped selling tickets in pesos because it was not allowed to repatriate the earnings. Coca-Cola, Clorox and Telefónica faced the same problem. That should now change. But companies’ current peso holdings will take a hit from the devaluation.

When announcing the removal of exchange controls Mr Prat-Gay would not be drawn on how far he thought the peso would depreciate. Economists guess it will fall to close to its blue-dollar rate. Since Mr Macri’s election victory on November 22nd, his finance team has been working behind the scenes to replenish dollar reserves ahead of the devaluation. The hope is that the fresh supply of dollars will stop the peso from “overshooting” the rate of 15 per dollar.

On December 15th the central bank raised interest rates on short-term fixed deposits by 8 percentage points to 38%. They may have to rise further to stabilise the peso and contain inflation. To show his commitment to such containment, and to reduce upward pressure on interest rates, Mr Macri will soon have to begin cutting the enormous budget deficit. This will hurt economic growth, which is already weak.

Source: Adapted from The Economist 17th December 2015

Extract C: Argentina’s prospects

Last week, the government of newly elected Argentine President Mauricio Macri launched a bold plan to revitalize a bruised and beleaguered economy plagued by high inflation. At a time of daunting crisis conditions, one should not underestimate the importance of this move not just for Argentina, but also for other countries, where leaders are watching closely for clues about how to deal with their own economic woes.

Thanks to years of economic mismanagement, Argentina’s economy has been badly underperforming for decades. Previous governments sought to avoid difficult policy choices and avoid fundamental issues by implementing controls that misallocated resources and undermined Argentina’s ability to generate the foreign-exchange earnings needed to cover its import bill. The recent drop in commodity prices has made the situation significantly worse, depleting what little growth the economy had experienced, while fuelling inflation, deepening poverty, and spreading economic insecurity and financial instability.

Macri took over the presidency with a bang, launching an audacious – and highly risky – strategy. Already, most export tariffs and currency controls have been scrapped, income taxes have been cut, and the exchange rate has been freed up, allowing for an immediate 30% depreciation of the peso.

Historically, few governments have pursued this type of approach, much less with such fervour; indeed, most governments have hesitated, especially when it comes to full currency liberalisation. When governments have taken similar steps, they usually have done so after – or at least alongside – the provision of financial injections and efforts to restrain demand.

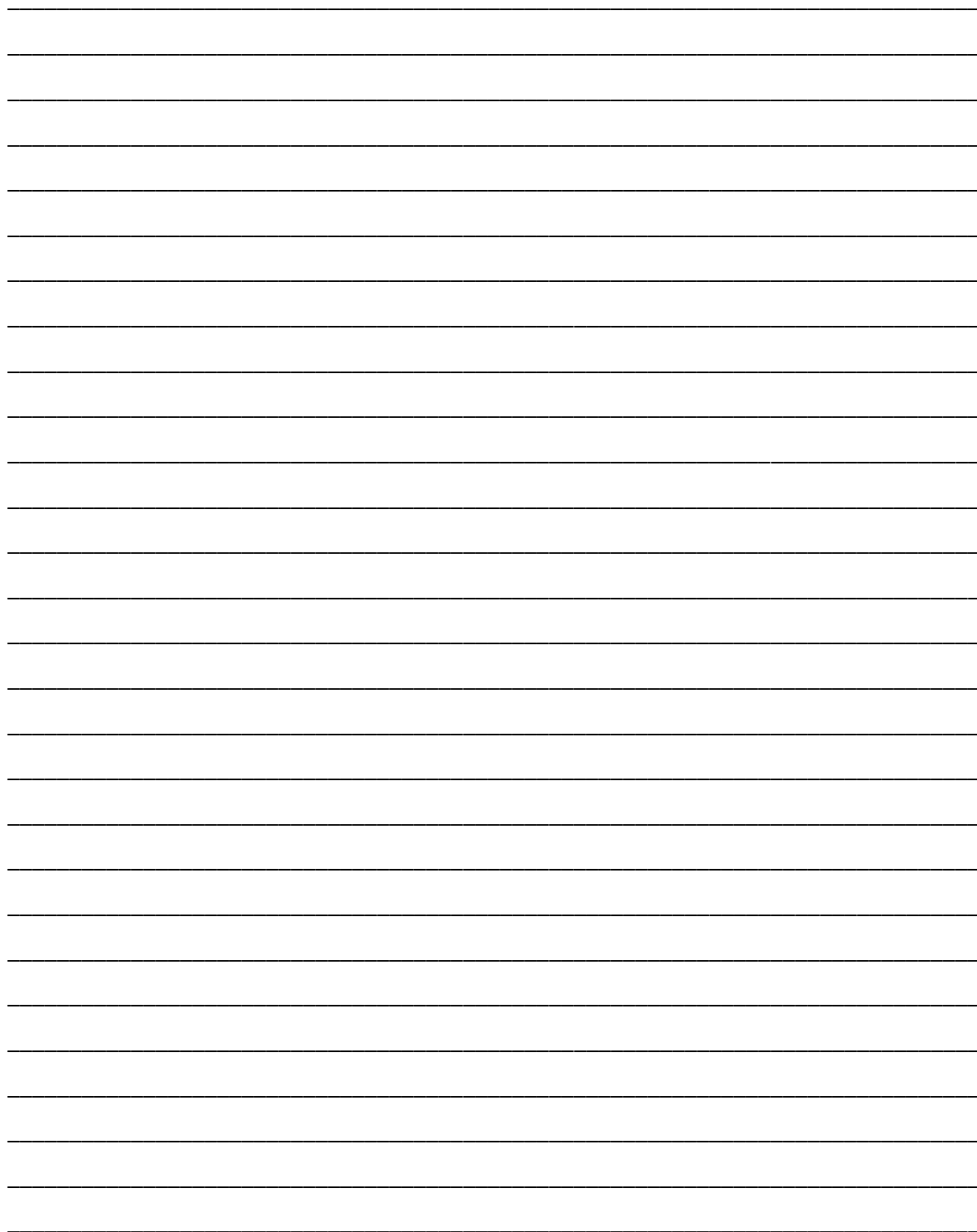
The reason is clear: by taking time to set the stage for liberalisation, governments hoped to limit the initial spike in price inflation, thereby avoiding a wage-price spiral and curbing capital flight. They worry that, if these problems emerged, they would derail reform measures and erode the public support needed to press on.

Source: Adapted from *Argentina's Big Bang* by Mohamed A El-Erian Project Syndicate, December 21 2015

5. With reference to paragraph 1 of extract B, calculate the percentage difference in the unofficial “Blue dollar” exchange rate and the official exchange rate. [2 marks]

6. Explain what is meant by the terms *freely floating exchange rate* and *fixed exchange rate*. [4 marks]

7. With reference to extract B and the help of a diagram explain how the Argentine Central Bank would have fixed the Peso against the US Dollar. [9 marks]



Section B

Answer one essay from this section

Each essay carries 40 marks

EITHER

Essay 1

The London and New York stock exchanges took a battering as nervous investors offloaded their shares in response to the Shanghai stock exchange falling by 7 per cent in early trading on January 4th 2016, due to concerns about the state of the Chinese economy. The government responded with a further reduction in interest rates and a devaluation of the Chinese currency.

9. Explain, with the help of a diagram, how a reduction in interest rates and the value of the Chinese currency could stimulate growth in the Chinese economy. [15 marks]
10. Discuss the impact of a slowdown in the Chinese economy on the rest of the world. [25 marks]

OR

Essay 2

Ministers on the Conservative benches welcomed the opportunity to campaign against the Prime Minister and promote the No campaign in the forthcoming referendum on whether the UK should remain a member of the EU

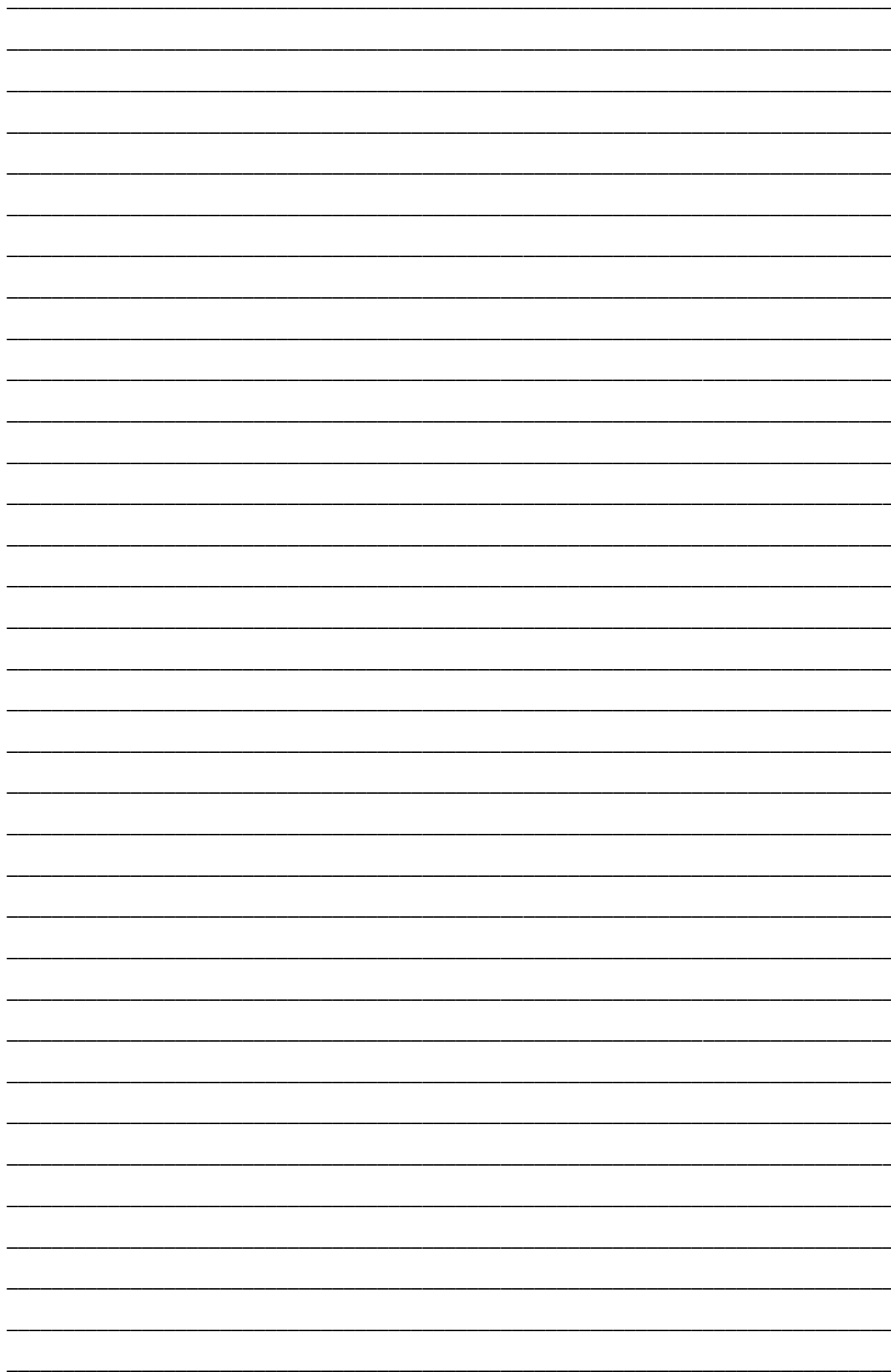
11. Explain the differences between a customs union, trading block and single market [15 marks]
12. Discuss the arguments for the UK remaining a member of the European Union. [25 marks]

OR

Essay 3

International trade has increased in importance in the last 20 years, with increased globalisation meaning the world's major trading nations are much more closely intertwined.

13. Explain the main driving forces behind the growth of globalisation. [15 marks]
14. Discuss the economic benefits associated with increased globalisation. [25 marks]



Practice Paper Set 1: AQA Economics 7136/03

A Level: Economic Principles and Issues

2 hours; Maximum marks: 80

Section A

Answer all questions in this section

Only one answer per question is allowed

1. The problem of scarcity exists in

- A. in poorly managed economies
- B. in free market economies only
- C. in centrally planned economies only
- D. in all economies

2. In a free market economy, the rationing function of the price mechanism means that

- A. an increase in demand, leads to a rise in price, and encourages firms to enter the market
- B. when there is a shortage of a product, price rises and deter some consumers from buying the product
- C. changes in price provide information to both producers and consumers about changes in market conditions
- D. if a product is scarce, a rise in price is likely to make the shortage worse

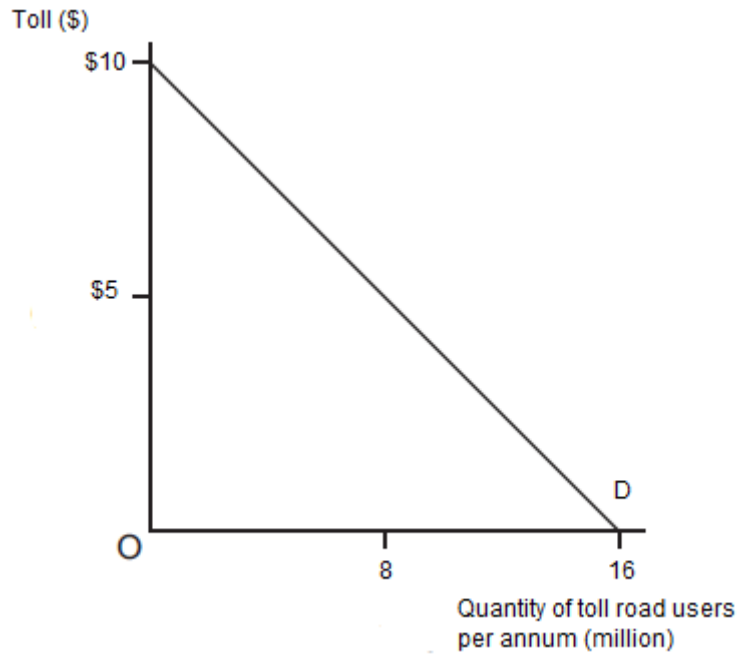
3. The US government plan to spend \$500m on a project designed to widen the country's major highways. The opportunity cost to the economy of the proposed project is

- A. the extra congestion caused whilst the work is being completed
- B. the purchase of ten new Apache helicopters, at a cost of \$50m each
- C. the potential increase in the number of traffic incidents following the completion of the work
- D. the reduction of passenger numbers for long distance rail travel in the US

4. In an oligopoly, which feature of a particular industry would make collusion between firms **least** likely?

- A. when the products of the individual firms are highly differentiated
- B. when barriers to entry to the industry are high
- C. when the market demand for the product is highly inelastic
- D. when regulation is weak and poorly enforced

5. The diagram below shows the estimated demand curve for a toll road between two major cities.

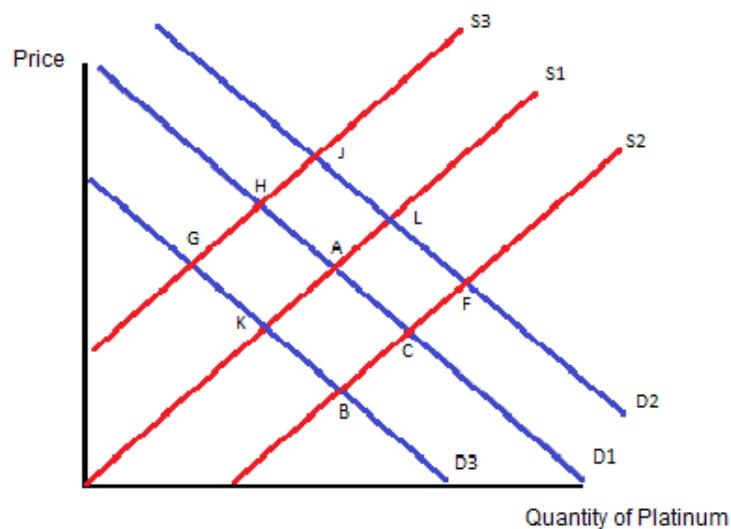


The estimated cost of operating the toll road (maintenance, toll booths etc.) is \$30m per annum.

If the toll road is designed to maximise revenue for the firm operating it, how much profit/loss will be made per annum?

- A. \$40m
- B. -\$10m
- C. \$10m
- D. unknown

6. The global platinum market is currently in equilibrium at point A on the diagram below. Platinum is a metal commonly used in manufacturing jewellery. What will be the new equilibrium point if there is an increase in the global price of silver and there are widespread miner strikes in South Africa, the world's leading platinum producer? (Answer options on following page)



- A. G
- B. J
- C. K
- D. F

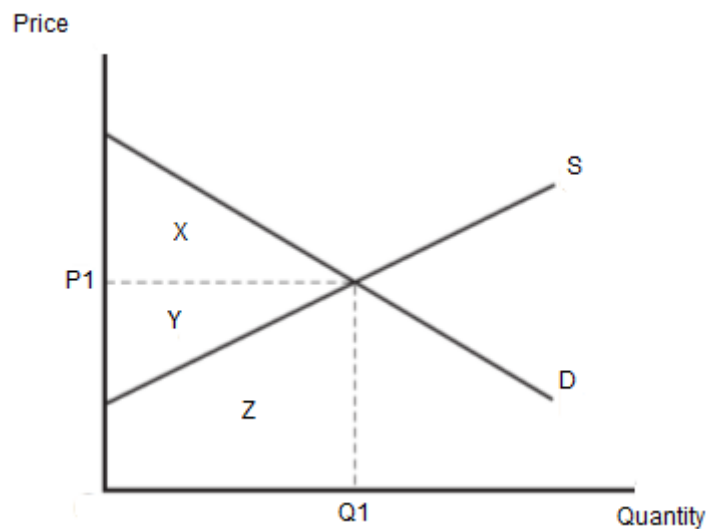
7. A firm finds that when it reduces the price of its product from £100 to £80 the quantity demanded for the good increases from 150,000 units a 165,000 units a month. The best estimate for the product's price elasticity of demand is

- A. 0.5
- B. -2
- C. -0.5
- D. 2

8. Good Y has a high price elasticity of supply. Which of the following goods is most likely to be good Y?

- A. games consoles, when large stocks are available
- B. fresh oranges, as it takes a long time to grow them
- C. breakfast cereal, as there are a large number of close substitutes
- D. new build houses in the short run

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



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

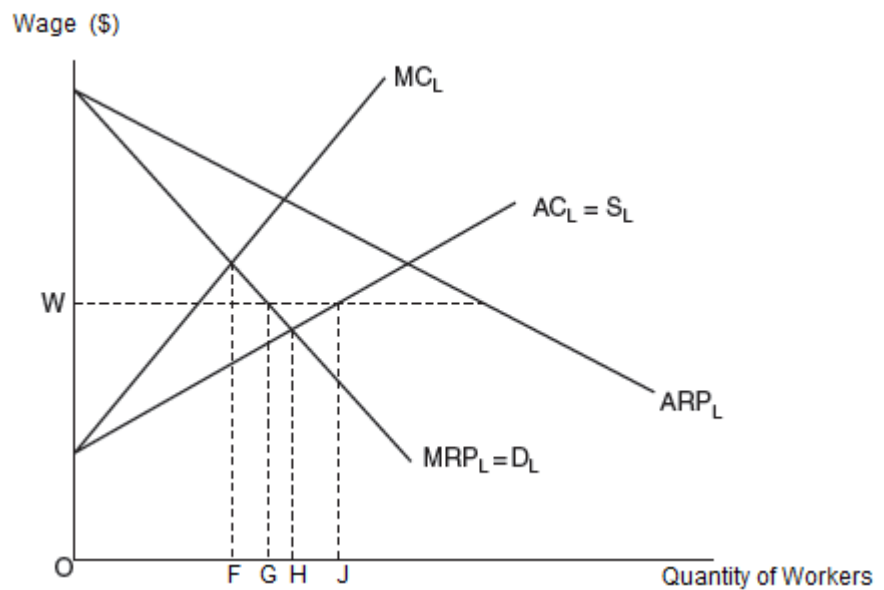
10. Which of the following forms of government intervention would be best suited to correct market failure?

- A. Privatisation of industries that provide public goods
- B. Subsidies for goods which yield high external costs
- C. Public sector provision of merit goods
- D. Banning the consumption of inferior goods

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

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

12. The diagram below is for a profit-maximising monopsonist who is obliged to pay the national minimum wage of W set by the government.



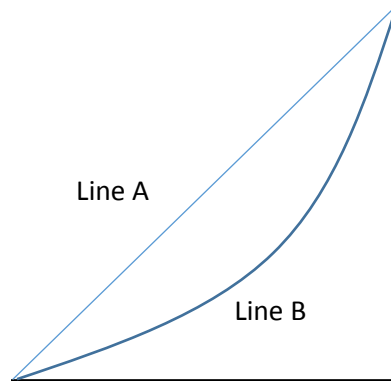
What will happen to the number of workers employed if the minimum wage applied on this labour market is removed?

- A. fall by FG
- B. rise by HJ
- C. rise by GJ
- D. fall by FH

13. Which of the following examples below is the best example of government failure?

- A. the imposition of a carbon tax results in higher costs of production for firms
- B. the high tax on cigarettes increases the incentive for consumers to purchase smuggled cigarettes
- C. the subsidy provided by the government for a merit good is not large enough to achieve the socially optimal level of output
- D. the provision of public goods needs to be financed by higher taxes

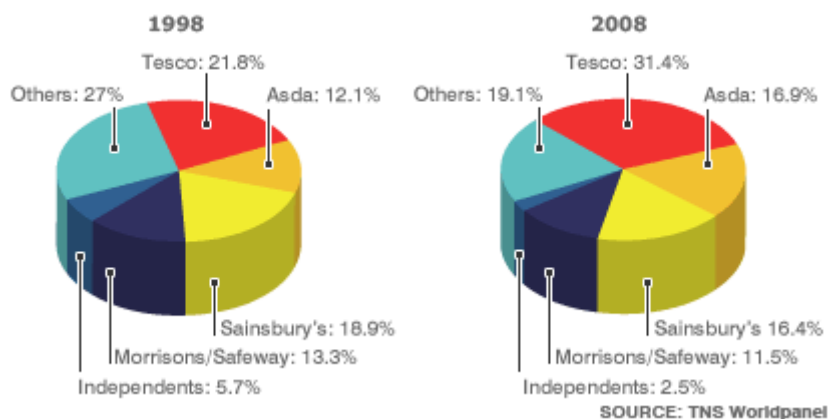
14. The diagram below represents the Lorenz curve for an economy, but a number of the labels are missing.



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

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

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



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

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

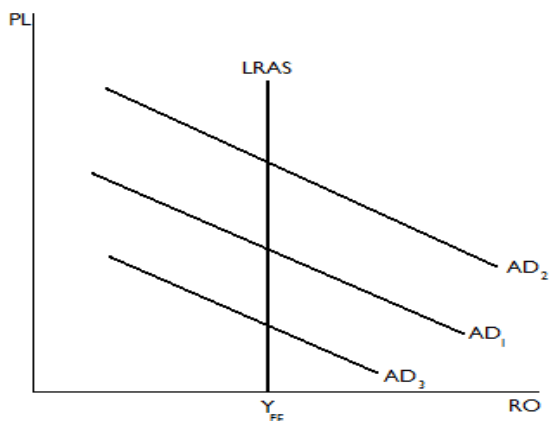
16. Which of the following is most likely to cause demand-pull inflation in the UK?

- A. An increase in VAT
- B. A sharp rise in the value of the Euro
- C. A rise in interest rates
- D. A decline in the global supply of oil

17. In March 2015 £1 traded at €1.40. By March 2016 the rate was €1.26 to the £. Which one of the following statements is true?

- A. This fall in the Euro is probably due to Europe's weak economic performance.
- B. This 10% fall in the Euro's value may help the Eurozone in achieving export-led growth.
- C. This 10% fall in the £'s value should help combat deflation in the UK.
- D. This fall in the £'s value is a result of falling confidence due to the Chinese slowdown.

18. An economy is operating at AD_1 . If it experiences a depreciation of its currency, how would that be reflected in the diagram?

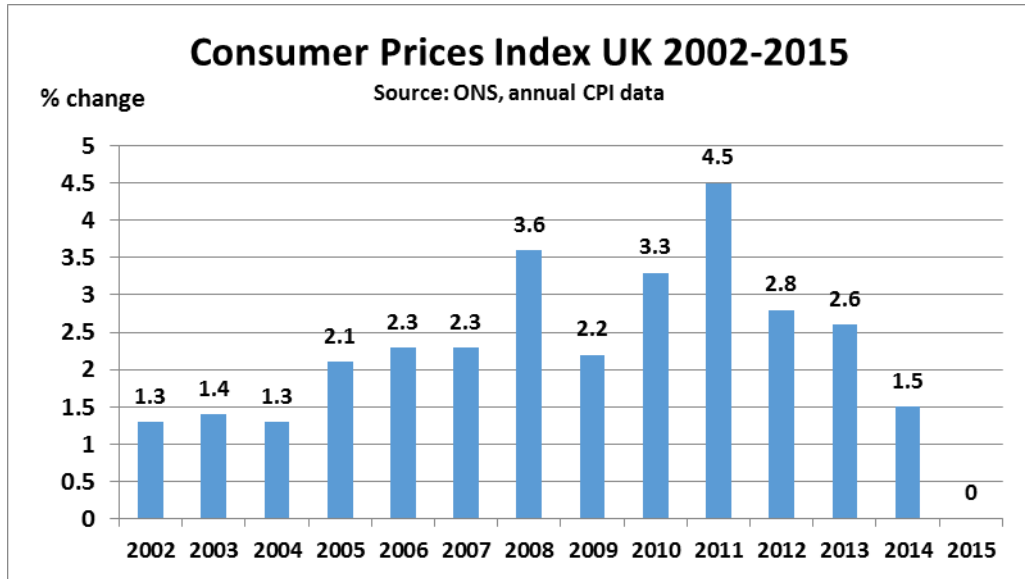


- A. AD_1 will shift left to AD_3 because import prices will be forced downwards
- B. AD will remain at AD_1 but the long run AS curve will move rightwards
- C. AD will shift left to AD_3 because UK producers have become less competitive internationally
- D. AD will shift right to AD_2 as the economy's competitiveness improves.

19. Last year, in a small South American country, consumption was \$65m, savings \$6m, government spending \$20m, imports \$30m, exports \$22m, and investment \$8m. Calculate the value of the country's aggregate demand.

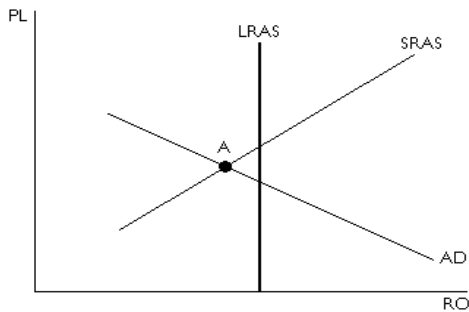
- A. \$91m
- B. \$85m
- C. \$93m
- D. \$79m

20 With reference to the data below, between 2009 and 2012, which one of the following happened?



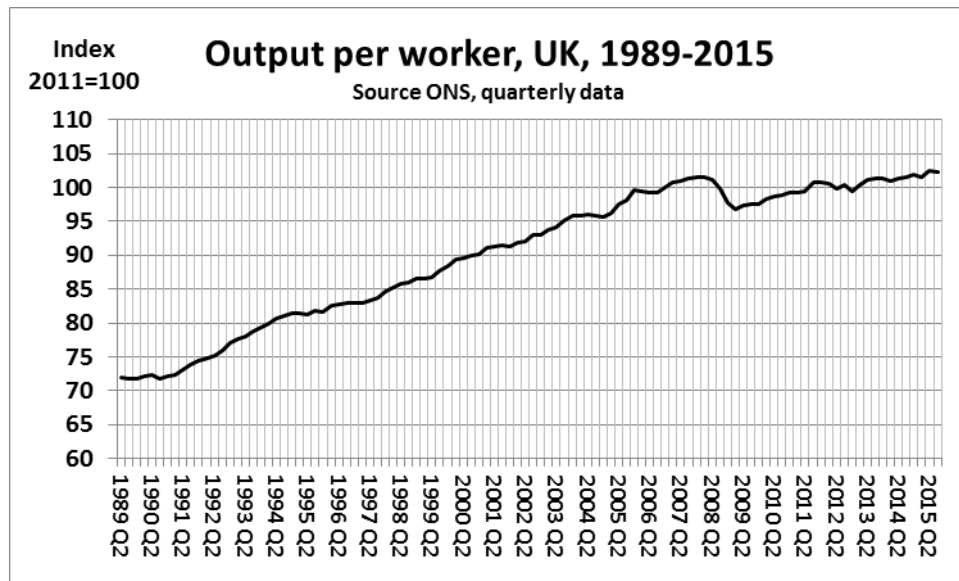
- A. Inflation rose until deflation took over
- B. Inflation increased and then levelled off
- C. Prices went up and then came down
- D. Price increases accelerated and then decelerated

21. The diagram shows an economy operating at point A. This economy must be experiencing:



- A. A positive output gap
- B. Demand-pull inflation
- C. A failure of supply-side policies
- D. Demand-deficient unemployment

Questions 22 & 23 are based on the following data



22. If the pre-2008 trend had continued, what difference would it have made to the UK economy by 2015?

- A. Employment levels would have been higher.
- B. The economy would have been closer to full allocative efficiency.
- C. Long run aggregate supply would have been pushed to the right.
- D. The government's budgetary deficit would have been lower.

23. If this slow productivity growth continues, what is the most likely impact on the UK economy?

- A. Falling international competitiveness leading to worsening balance of payments deficits
- B. Falling employment levels leading to a rise in unemployment-related welfare payments
- C. A fall in inward migration as UK demand for labour flattens out
- D. A steady rise in demand-deficient unemployment

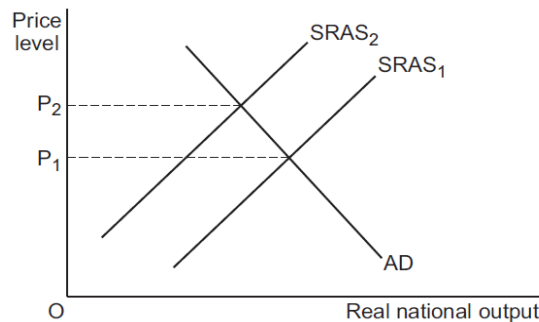
24. Which of the following is the best explanation of how quantitative easing (QE) works?

- A. The Bank of England prints more physical money and gives better credit terms to high street banks.
- B. The Bank of England buys bonds from high street banks to boost those banks' liquidity.
- C. The Bank of England sells bonds to high street banks to boost those banks' asset base.
- D. The Bank of England cuts the reserve requirements for high street banks, allowing them to lend more.

25. All other things being equal, which one of the following is most likely to cause the long-run aggregate supply curve to shift to the right?

- A. the provision of funding by banks to finance investment in manufacturing industries
- B. an increase in exports which causes a rise in the price level
- C. an increase in interest rates to help reduce inflation in the economy
- D. an increase in the provision of unemployment benefits

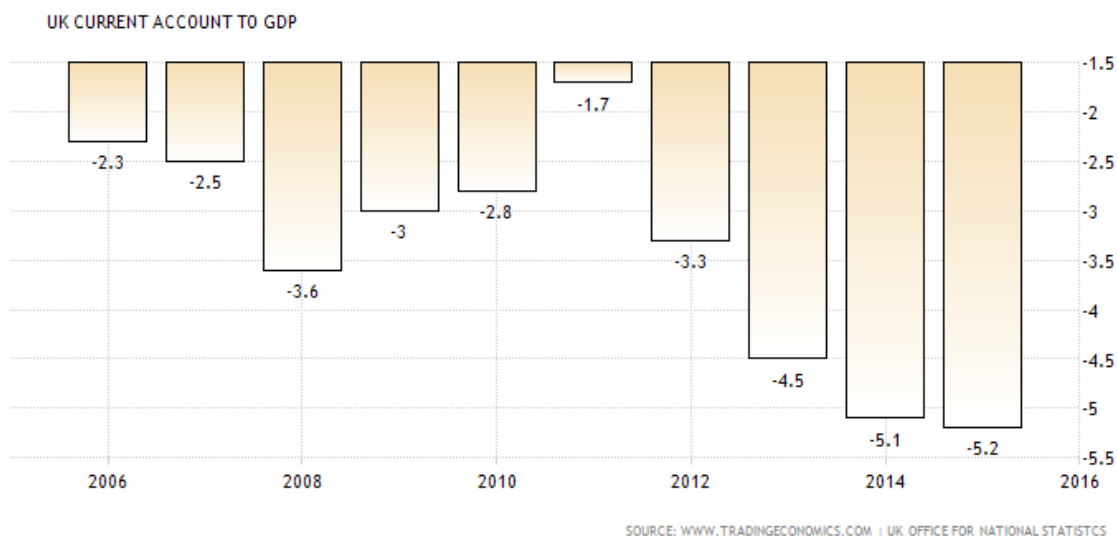
26. The diagram below represents an economy that has experienced inflation, with the price level rising from P_1 to P_2 .



The most likely cause of the inflationary pressures shown in the diagram is;

- A. a sustained increase in bank lending
- B. expansionary fiscal policy
- C. an increase in the national minimum wage
- D. a rise in productivity levels

27. The table below shows the UK current account as a % of GDP, 2006 - 2015.



Which one of the following statements is a valid interpretation of the trend in the above data

- A. It may be due to worsening exports and its effect is to worsen the national debt.
- B. It may be caused by deteriorating returns on overseas investments by UK firms

- C. It shows that the government's austerity programme is failing because the deficit is worsening.
- D. The reason may be that UK exports are performing better than the level of imports to the UK.

28. A UK tractor manufacturer imports €8,400 engines from Germany. When the exchange rate is €1.40 to the £ the engines cost £6,000. Then the £ falls by 20% against the Euro. What is the probable new price tag for the tractor engines in the UK?

- A. £4,800
- B. £9,408
- C. £5,000
- D. £7,500

29. A surge in global oil prices results in an increase in inflation in an economy that is a net importer of oil. In response to the higher rate of inflation, the central bank decide to raise interest rates. This is an example of;

- A. expansionary fiscal policy
- B. a supply-side policy
- C. contractionary monetary policy
- D. a devaluation in the currency

30. In a closed economy (with no international trade and no government) the current equilibrium level of income is £22bn. The full employment level of income is £25bn. To reach full employment would require an injection of £1bn. What can be deduced from this information?

- A. the marginal propensity to consume is $1/3$
- B. the marginal propensity to consume is $2/3$
- C. the value of the multiplier is 1.5
- D. the value of the multiplier is $1/3$

End of Section A

Section B

Answer all the questions in this section

Refer to the source booklet for Extracts A, B, C and D

The global steel glut

Paper 3: Economic Principles and issues

2 hours

INSERT

The Global Steel Glut

Extract A Port Talbot: Javid meeting workers at threatened steel plant

Extract B China's growing share of world steel production

Extract C Tata Steel: ministers start hunt for buyers for British assets

Extract D Tariffs are not the answer to steel production woes

Extract A

Port Talbot: Javid meeting workers at threatened steel plant

Sajid Javid is meeting steelworkers at the threatened plant in Port Talbot.

The business secretary, under fire for being in Australia on official business when Tata announced plans to sell the site, said he wants to show he is on the side of workers, thousands of whose jobs are at risk. But one union leader complained Mr Javid "wasn't to be seen" at a time of crisis for the British steel industry. Whilst Chancellor George Osborne has insisted the UK was "leading the way" in Europe in trying to help the industry compete.

The government is facing claims that it has blocked an EU measure which would have tackled the "dumping" of cheap Chinese steel in Europe - one of main handicaps facing UK producers. Ministers opposed an European Commission proposal to lift the "lesser duty rule" cap, which would allow tougher tariffs to be imposed on cheap imported steel, arguing higher tariffs would hit other sectors such as the car industry.

Tata Steel's UK business - which directly employs 15,000 workers and supports thousands of others - includes plants in Port Talbot, Rotherham, Corby and Shotton. After a board meeting at its headquarters in Mumbai on Wednesday, Tata confirmed plans to sell its loss-making UK plants. Unless a buyer can be found, thousands of jobs are at risk. The Port Talbot plant - which employs 4,100 people - is said to be losing £1m a day.

Dumping, duties and steel

The EU is imposing financial penalties on 16 categories of Chinese steel imports which they believe are being "dumped" on overseas markets - effectively being sold at a loss. The rate of these duties varies but, controversially, they are more often than not lower than the actual amount by which the products are under-priced.

This is in, large part, down to the so-called "lesser duty" rule. This rule, which derives from World Trade Organisation regulations, states that it is desirable, although not necessary, for tariffs to be applied at a level "adequate" to remove the financial harm caused to competitors but "at a level lower than the margin of dumping".

UK steel producers and unions argue the EU, by adhering to this rule, has effectively capped steel tariffs at 9% although the European Commission does not recognise this figure. Critics say tariffs are far higher in the US (at 266 per cent) and totally ineffective when heavily-subsidised Chinese steel is sold at 66% of cost price.

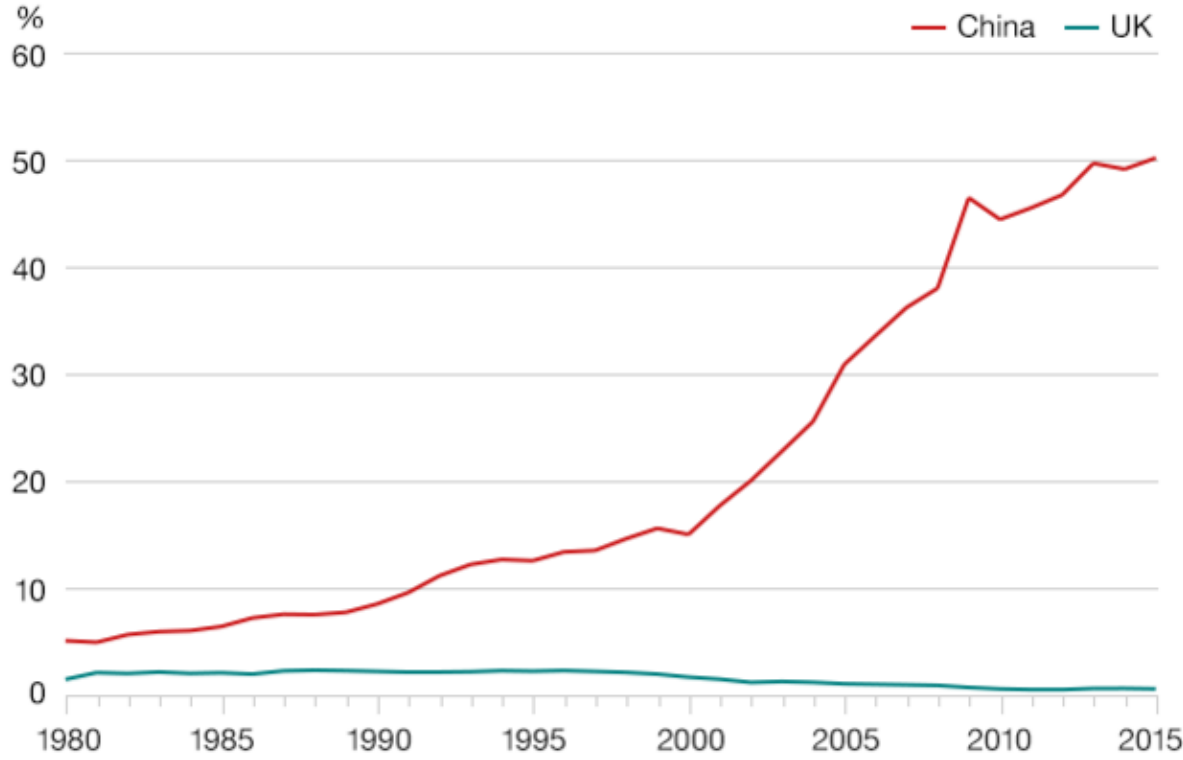
The UK has argued against higher tariffs, saying they would hit other sectors such as the car industry, which import a lot of foreign steel. But the European Commission is considering removing the rule from relevant legislation, a move reportedly backed by France and Germany. Ahead of the meeting, Mr Javid tweeted that he had also held "productive" talks with the local Labour MP Stephen Kinnock and Welsh Secretary Alun Cairns about the way forward.

Steel production makes up 1% of Britain's manufacturing output and 0.1% of the country's economic output. It is understood the government is looking at offering loan guarantees to potential buyers and tighter rules on procurement to make sure major British projects are obliged to buy British steel.

Source: Adapted from the BBC News online "Port Talbot: Javid meeting workers at threatened steel plant" 1st April 2016

Extract B

China's growing share of world steel production



Source: World Steel Association



Source: BBC News online "Port Talbot: Javid meeting workers at threatened steel plant" 1st April 2016

Extract C

Tata Steel: ministers start hunt for buyers for British assets

Sajid Javid will travel to south Wales on Friday to promise steelworkers that the government will use all "ministerial, official and diplomatic levers" to help save their jobs, including actively seeking out buyers for Tata Steel's British assets.

Arriving three days after the crisis broke, the business secretary will attempt to reassure 4,000 employees at the Port Talbot plant, despite a warning by David Cameron that the global collapse in the price of steel and massive overcapacity meant there was "no guarantee of success".

It is understood that senior Whitehall officials have contacted Liberty House, a steels and metals group with an annual turnover of close to £5bn, which is in the process of buying sites in Scotland. Private equity companies, which would be likely to undertake radical cost-cutting steps, are also being approached.

Javid said he would meet workers, managers, unions, MPs and members of the Welsh government, and promised to do what he could to secure the long-term future of the company and steel industry. "Whilst we can't change the status of the global steel market, we can and are playing a positive role in securing a sustainable future," he added.

A source within Tata confirmed that the government was leading the efforts to find interested parties, but revealed that one option under consideration was a sale of "different portfolios", which would mean breaking the company up. However, sources inside Tata Steel said the company, which is losing £1m a day on its UK operations, had failed to find a buyer over the past 18 months.

After hosting an emergency summit at No 10 following his return from holiday, Cameron said the situation was "of deep concern", but added: "I don't believe nationalisation is the right answer. What we want to do is secure a long-term future for Port Talbot and for other steel plants in the UK."

The foreign secretary, Philip Hammond, warned of a "reality of a world which is drowning in an oversupply of steel", arguing that producing steel for which there is no demand is not the answer. But with up to 40,000 jobs on the line nationally, ministers are under pressure to act.

The government said its intervention helped ensure that Tata announced a sales process for Port Talbot, rather than immediate closure.

But ministers have been widely attacked for failing to take more action. Anna Turley, Labour MP for Redcar, said similar promises were made in her constituency but the government failed to act, resulting in the loss of 3,000 jobs when the steel plant there was closed by its Thai owner SSI in October last year.

Stephen Doughty, another Labour MP, said he had publicly raised the challenges facing the steel industry with the government more than 60 times, and attended a series of meetings in which ministers were urged to take action.

"They cannot argue that they didn't know or that the crisis point of the last few days has come as a surprise. They were warned again and again and again by the industry, by unions and by MPs," he said.

Government sources stressed Javid's visit on Friday is his second to the area, and that he recently chaired a steel summit in Whitehall. But critics say the government has failed to support the industry. Labour pointed out that Tory MEPs voted against EU proposals to take tougher action on Chinese dumping.

In a scathing attack the head of the European Steel Association, Axel Eggert, accused Britain of being a "ringleader" in attempts to block stronger defences for EU countries against cheap Chinese imports.

Britain blocked attempts to strengthen EU trade defences against imports of cheap Chinese steel that have devastated Tata's operations in the UK, according to senior European officials. The Financial Times reported that French and Italian officials also said Britain had led the opposition to an overhaul of anti-dumping rules.

Chris Hagg, head of external affairs at another steel company, Celsa UK, said he wanted to see more action taken on energy costs. "Our industry needs to be put in a position where it can compete on a fair basis. The government needs to do more to help us on the energy front," he said.

The issue has led to a fierce row between pro- and anti-EU campaigners. Stephen Kinnock accused Brexit campaigners of "cynically attempting to hijack and exploit" the steel crisis to their own advantage. He said it was absurd to suggest that leaving the EU would allow the government to protect the British steel industry. He accused ministers of cosying up to China, adding: "The reality is that the European commission has been trying to tackle the steel crisis for years now, but has consistently been hamstrung by a British government fighting tooth and nail to undermine those efforts."

But Tom Pursglove MP, campaigning for Brexit, said: "If the UK were to leave the EU, we would have the flexibility to react to the current steel industry crisis with anti-dumping measures to counter the Chinese tactic of flooding the market with cheap steel."

Source: Adapted from The Guardian "Tata Steel: ministers start hunt for buyers for British assets" 1st April 2016

Practice Paper Set 2: AQA Economics 7136/01

A Level: Markets and Market Failure

2 hours; Maximum marks: 80

Section A

Answer **EITHER** Context 1 **or** Context 2

CONTEXT 1

Total for this Context 40 Marks

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

Extract A: Growth in air travel

The growth in low-cost carriers and regional airlines have revolutionised the airline business with the introduction of lower fares. Notwithstanding the fact the airlines such as Easyjet and Ryanair have steadily clawed market share from the established airlines, the airlines with the greatest passenger numbers remained Delta (US), United (US), Southwest (US), American (US) and Lufthansa (German). Aviation demand is set to increase due to the rising affluence of the middle class in emerging markets.

As a result of increasingly affordable flights and cheaper oil prices, airlines are expected to grow passenger numbers by 6.4% and cargo by 5.9% between 2015 and 2034. The Middle East is the region where passenger and cargo air traffic are expected to experience the highest rates of growth. Commercial airlines are likely to be the greatest beneficiaries of the increased passenger demand.

Source: Adapted from www.statista.com

Extract B: London's long wait for a new runway continues

No new full-length runway has been built to serve London since WWII. NIMBYs and tight budgets have repeatedly caused plans to increase airport capacity to be shelved: at Cublington in Buckinghamshire in the 1960s, at Foulness in the Thames Estuary and at Gatwick in the 1970s, and several attempts to build a third runway at Heathrow in the 1990s and 2000s.

In 2012, with the need for new airport capacity more acute than ever, the Conservative-led coalition government set up a commission chaired by Sir Howard Davies to decide where to send the bulldozers. Sir Howard took his time, tactfully staying quiet before the general election in May of this year. At last in July he delivered his conclusion: a third runway should be built at Heathrow airport, a plan he favoured over rival schemes to extend Heathrow's existing runways or build a second one for Gatwick airport, south of London. The government promised to make a decision by the end of the year.

Of course, it hasn't. On December 10th the Department for Transport announced that no decision would be made until next summer. Business groups, which have been aggressively in favour of expanding Heathrow, responded furiously. The British Chamber of Commerce said the non-decision was "bad for Britain" and branded the prime minister "gutless" for putting it off. Many suspect the government's

strategy is designed simply to avoid local political problems in the capital, where the prospect of more noisy, polluting flights worries west-Londoners.

Decades of indecision have made the need for expansion ever more urgent. Last year the three main airports in the south-east—Heathrow, Gatwick and Stansted, with four runways between them—handled around 130m passengers, 16m more than the main three serving New York, which have nine runways. Heathrow has been operating at more than 98% of its capacity since 2003. Gatwick, Britain’s second-busiest airport, is full 80% of the time.

That results in congestion, which raises ticket prices and damages London’s reputation as a place to do business. The lack of runway capacity for flights to destinations such as Shenzhen or Wuhan will cost Britain £31 billion (\$47 billion) in lost trade with the BRIC economies in the period it will take to build a new runway, according to the Confederation of British Industry.

The transport secretary, Patrick McLoughlin, has said he will use the extra six months or so to undertake more studies on the environmental impact of airport expansion. That is partly because the government’s own plan to meet EU targets on air pollution is not due to be finalised until next year. As many parts of west London already breach these targets, if Heathrow ever got the go-ahead it would face strict limits on the number of flights it could handle—unlike Gatwick, which is in a more rural area.

According to the Davies Commission, as a result of these pollution limits the number of extra passengers travelling through an expanded Gatwick would exceed the extra passengers travelling through an expanded Heathrow within 10-15 years of opening. And if these conditions are tightened as a result of next year’s air-pollution plan, the economic case for Heathrow may be severely weakened.

It is not an easy choice. But the worst option of all is to do nothing—and that, for more than half a century, is what successive British governments have done. As long as the government goes on putting off the decision, London’s economy will be at risk of stalling.

Source: Adapted from *The Economist* 11th December 2015

Extract C: Competition

The Airports Commission states in its Consultation Document that expansion at Gatwick “would enhance competition in the London airport system”. We believe more competition would reduce fares, raise standards and provide more choice for passengers.

That’s why we think that the next runway should take this a stage further by creating two world class airports for Britain with all the competition benefits that would bring.

Building a new runway in the South East would allow around 200,000 extra flights a year to and from Britain. If those flights all land at Heathrow, then just one airport will control the majority of the air traffic in and out of our country, resulting in less choice, less innovation, and less impetus to improve things for passengers.

However, if more of those flights touch down at Gatwick, passengers will benefit from increased competition through lower fares and better service. Competition within a network of airports keeps both Heathrow and ourselves on our toes, compelling us to be the best we can be.

Source: Adapted from *www.gatwickobviously.com* 09 January 2016

purchase of Pixar Animation Studios and Marvel Entertainment brought Buzz Lightyear of “Toy Story” and Iron Man of “The Avengers” to a stable of mice and Muppets. Lucasfilm added Star Wars to the cast of characters that the firm has amassed since Mr Iger succeeded Michael Eisner as CEO.

These new franchises have joined the world’s most formidable licensing and entertainment empire, one that encompasses toy shops, video games, theme parks, cruises, comics, music, television and feature films. Disney is commercialising childhood through lots of channels—and making the companies it bought, as well as itself, far more valuable in the process.

The most valuable parts of Disney’s empire is still their cable-TV businesses in America. ESPN, a sports channel that Disney acquired in 1996, as part of the purchase of Capital Cities/ABC, is a money machine. Cable networks bring nearly half of Disney’s revenues and profits.

When Disney bought Pixar in 2006 Disney it spent \$7.4 billion, an incredibly high price for a company that produced one film a year. Mr Iger was also willing to splash out when he set up his 2009 deal with Marvel; that cost \$4 billion, even though the film rights to two of its most valuable properties, Spider-Man and X-Men, were tied up elsewhere. And when he bought Lucasfilm, for \$4.1 billion in 2012, it had not produced a new title in years, and the three newer editions of Star Wars, though commercially successful, had been sufficiently unpopular with fans that the success of another sequence of films was by no means assured.

Some analysts suggested at the time that Mr Iger had overpaid for Marvel, not least because he was getting what appeared to be a B-team of superheroes. But Mr Iger’s faith in Marvel’s creative team and vision paid off. Marvel turned the story of a second-tier character, Iron Man, into a blockbuster. This became the cornerstone of a franchise introducing a number of other heroes, including Captain America and Thor, which built up to an ensemble film, “The Avengers”, that earned \$1.5 billion around the world in 2012.

An Avengers sequel this year did nearly as well. Two more are in development and a plan for related projects extends into the middle of the 2020s. The success of the Iron Man and Avengers films has helped Marvel develop more obscure stories from its catalogue. With Disney’s financial might as backup, Marvel can take risks on eccentric films like “Guardians of the Galaxy”, which features a wisecracking raccoon and an ambulatory tree.

Nothing exemplifies the success of Mr Iger’s strategy better, though, than the Star Wars franchise, for which Disney paid \$4.1 billion in 2012. “The Force Awakens” carries more gravitational force than the twin suns of Tatooine. Up to \$5 billion in Star Wars licensed products will be sold over the next year. The film itself could rake in as much as \$2 billion in ticket sales.

The franchise encapsulates Disney’s long-term thinking. There are another five Star Wars films to come by 2020—two sequels to “The Force Awakens” and three stand-alone stories. By that time vast new Star Wars attractions will have opened in the firm’s theme parks in California and Florida. (Meanwhile Lucasfilm’s other blockbuster franchise, the Indiana Jones films, has a fifth title in the works with Harrison Ford to return to his starring role.)

That does not mean things were destined to go smoothly. The new Star Wars trilogy does not reflect Mr Lucas’s creative vision. He has described the sale as like a “divorce”. Yet the opening credit of “The Force Awakens” shows Lucasfilm’s green logo alone, without any mention of Disney. Mr Iger is not one to let his ego get in the way of a business deal and understands what matters to fans.

Disney has tried hard to preserve what Mr Iger terms the “creative essence” of the firms it has acquired, moving slowly when cutting costs or making administrative changes. A similar approach can be seen in the company proper, where individual business units enjoy more autonomy than they did under Mr Eisner.

In the case of Pixar, the leaving-well-alone was negotiated, keeping its name on films in most markets. This hands-off approach did not stop Disney learning from Pixar. It transplanted Pixar's film-maker-driven culture into Disney's own animation studio, including the "Pixar brain trust", a peer-review system and its notorious attention to detail. For "Frozen" researchers spent weeks in Norway studying local music, clothing, furniture and folk art. In 2013, it became the highest-grossing animated film ever, making close to \$1.3 billion worldwide.

Getting its hands on Pixar helped reinvigorate Disney's animation. It also gave all the firm's other businesses new material to work with. That made all the Pixar properties—like those of Marvel—worth much more than if they had remained independent. Hit films create demand for merchandising and attractions and other entertainment, the success of which in turn creates more demand for more films, including not just sequels but also spin-offs that expand the universe of franchises. The power of these synergies is on display again with "The Force Awakens".

The biggest doubt is the durability of the model. It is not clear for how long such franchises can be stretched. And introducing new ones is a risk. "John Carter", a film based on one of a series of novels by Edgar Rice Burroughs, flopped. Cinema-goers will also have far more choice as other firms try to establish or add to their franchises. Universal has Fast and the Furious and Jurassic Park. Warner Brothers plans three more Harry Potter spin-offs and more from Marvel's rival, DC Entertainment, which includes Batman and Superman.

No competitor, however, rivals Disney's scale. The only media rival that comes close to matching its breadth is Comcast, which acquired NBC Universal, including Universal Studios and its theme-park business, in 2011. And none is anywhere near Disney when it comes to selling spin-off products. It is the world's number-one licensor of merchandise by far, with \$45 billion in sales in 2014, more than seven times as much as its closest competitor in Hollywood, Warner Bros.

Disney helped develop products and markets which Lucasfilm on its own would have been too stretched to consider. With Walmart it has made a Star Wars advertisement that targets girls as well as boys. Disney has cannily made Rey, a female character, the protagonist in "The Force Awakens". The Disney effect could boost merchandising sales in America alone by five times what Lucasfilm could have managed by itself, according to Paul Southern, a licensing boss at Lucasfilm.

Disney also has a well-developed global retail network, and has been promoting Star Wars at its theme parks in Paris, Tokyo and Hong Kong. In 2016 Disney is opening a new theme park in Shanghai, the first of what might eventually be two in mainland China.

Source: Adapted from The Economist 19th December 2015

Extract E: Disney CEO paid \$46.5 Million in 2014

Walt Disney CEO Bob Iger earned \$46.5 million in 2014, up 36 percent from last year, according to a regulatory filing on Friday.

Iger's compensation included his \$2.5 million base salary as well as \$22.8 million in non-equity incentives, \$8.9 million in stock awards, \$8.4 million in option awards, \$2.8 million in a change to his pension value and \$1.1 million in other compensation.

Disney shares rose 25 percent in calendar 2014 and 55 percent the year prior.

Source: Adapted from "Walt Disney CEO Bob Iger paid \$46.5 Million in fiscal 2014" by Paul Bond in the Hollywood Reporter 16 January 2015

Extract F: The force is with Pinewood

Goodbye Mr Bond, hello Darth Vader. Two of the most successful franchises in film history have been following each other in and out of Pinewood Studios, just west of London, for decades now, and the tradition remains in rude health. All but two of the 24 Bond movies were shot at Pinewood; the latest one, "Spectre", will be released in the autumn. "Star Wars: Episode VII" was filmed at Pinewood last year, and Episode VIII will start shooting there in 2016.

Pinewood Group, which owns both the studios at Iver Heath (Buckinghamshire) and a similar set-up at Shepperton (Middlesex), recently announced record annual revenues, of £75m (\$117m), up by £11m on the previous year, and record profits. Such is the demand for Pinewood's services that it has just started a £200m expansion that will see it almost double in size, building ten new stages after years of wrangling with local planning authorities.

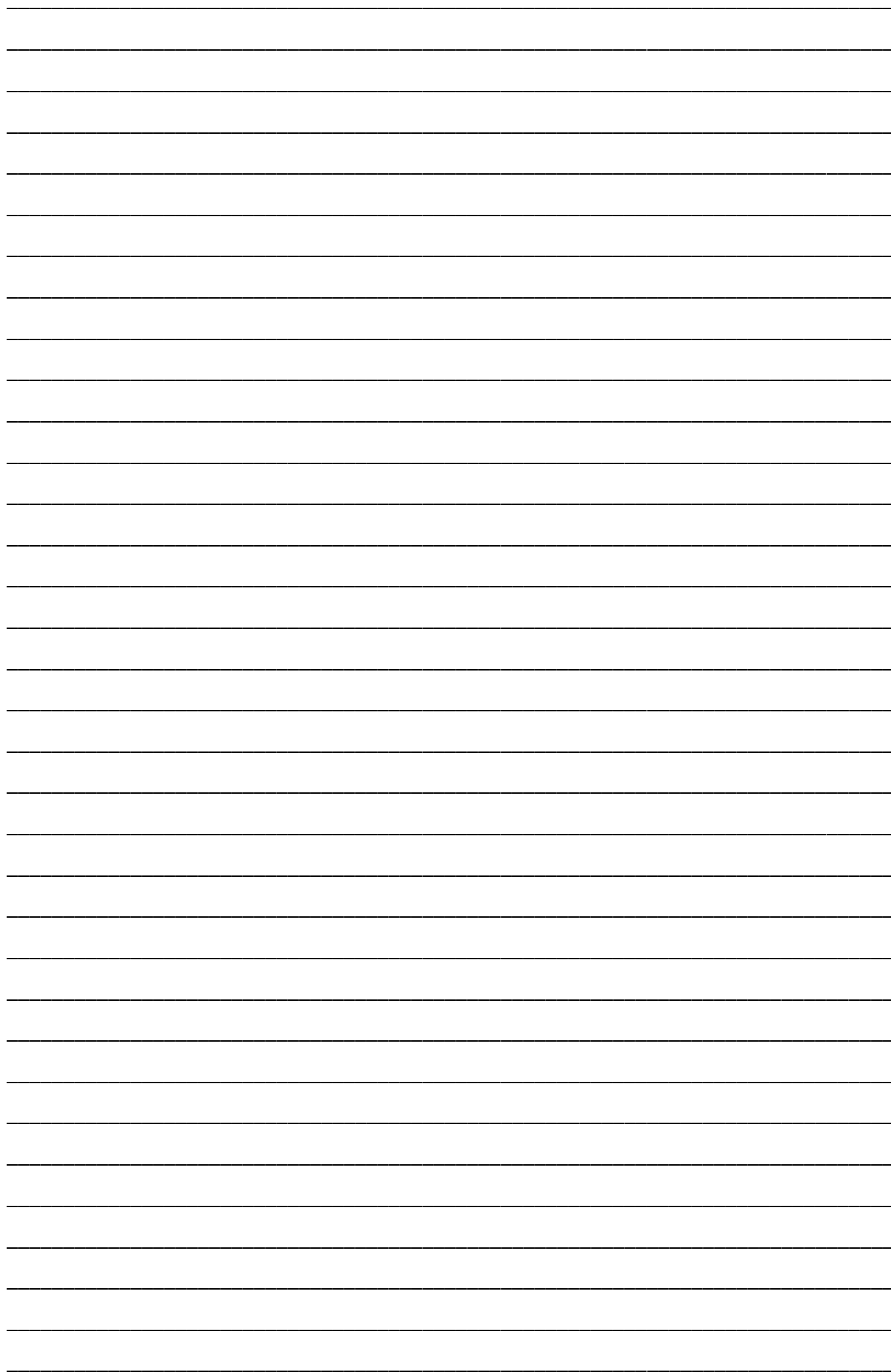
Industry insiders agree on the reasons for its recent success, and that of the British film industry more generally. "Tax relief is the hook that will bring films in here, and the state-of-the-art skills base will keep them coming back," says Ian Smith, a producer (whose credits include "Mad Max: Fury Road") and head of the Film Skills Council. Since the big Hollywood productions started making more films abroad a couple of decades ago, countries have vied to lure them in by offering ever-sweeter tax incentives. One study suggests that without the subsidy, spending on productions in Britain would fall by 71%. Last year the value of film and television production was £1.5 billion, £1.2 billion of which came from overseas, principally America.

Unlike many other British industries, film has maintained a cadre of very skilled workers and technicians. Costs are relatively high in Britain, but producers value the reliability and competence of studios like Pinewood, which help to get their films out on time, and even on budget.

But Pinewood is now much more than just a studio complex in London's suburbs. It is a global brand. On top of its 36 British sound-stages, it manages 31 overseas, in Malaysia, Canada, the Dominican Republic (mainly for sea and underwater shooting) and America. This overseas expansion has allowed Pinewood to exploit the globalisation of film-making.

5. With reference to extract F, calculate the percentage of the total value of film and television production coming from overseas. [2 marks]

6. With reference to extract F, explain the benefits that Pinewood studios can expect to receive from further expansion. [4 marks]



Section B

Answer one essay from this section

Each essay carries 40 marks

EITHER

Essay 1

Monopolies are inherently bad. They reduce competition and have no reason to innovate.

9. Explain how monopoly firms can maintain abnormal profits. [15 marks]

10. Discuss whether or not monopolies are inherently bad. [25 marks]

OR

Essay 2

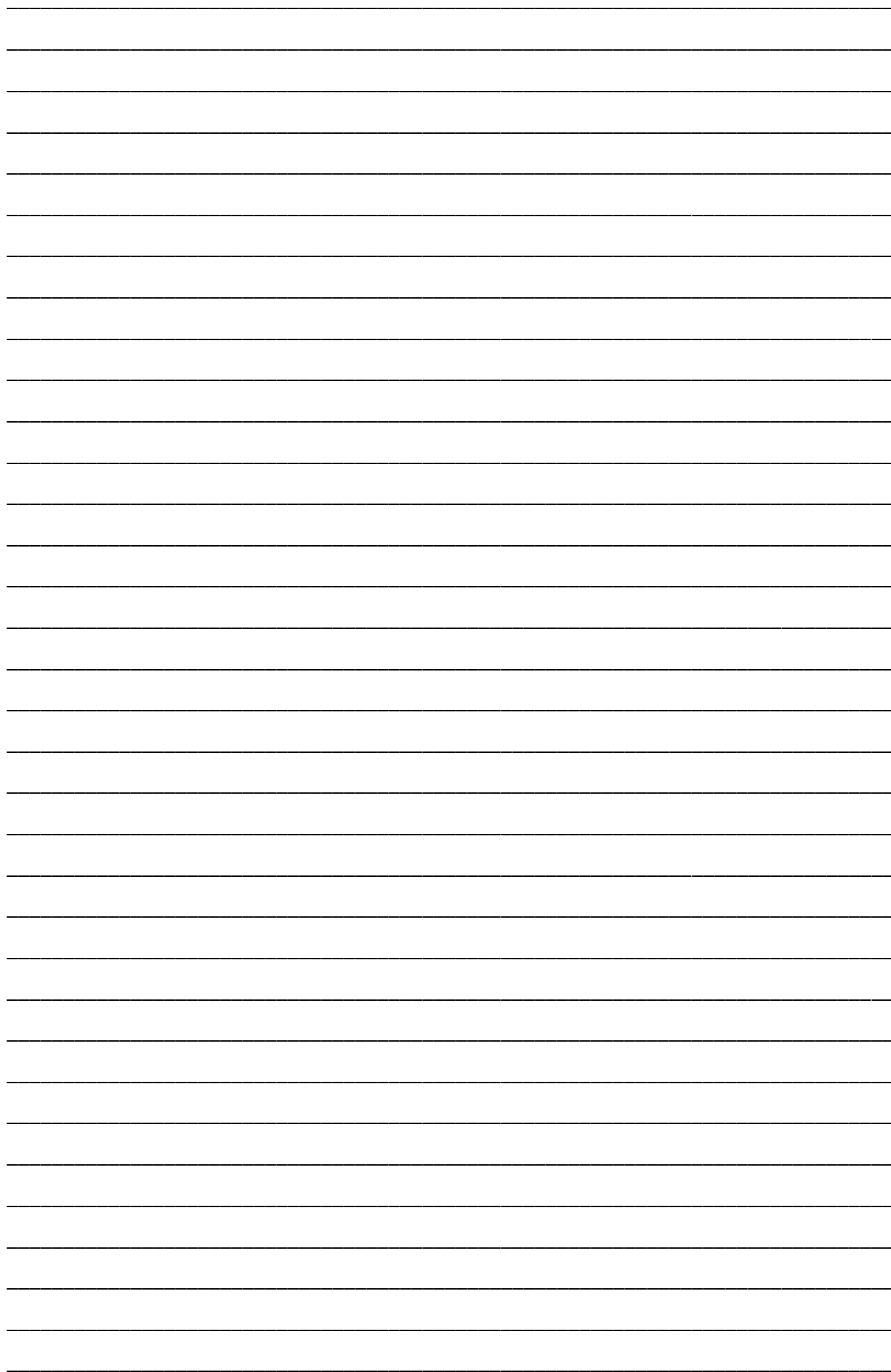
England's chief medical officer Sally Davies says the government should introduce tax on sugar to combat growing menace of obesity

11. Explain how a tax would help combat the "growing menace of obesity" [15 marks]

12. Discuss whether or not it is the role of government to regulate the provision of merit and demerit goods. [25 marks]

OR

Essay 3



Practice Paper Set 2: AQA Economics 7136/02

A Level: National and International Economy

2 hours; Maximum marks: 80

Section A

Answer **EITHER** Context 1 **or** Context 2

CONTEXT 1

Total for this Context 40 Marks

Study Extract A and then answer all parts of Context 1 which follow

Extract A: Broken lever

Are dire public finances hindering the central bank from tackling inflation?

BRAZIL does not look like an economy on the verge of overheating. The IMF expects it to shrink by 3% this year, and 1% next. (The country has not suffered two straight years of contraction since 1930-31.) Fully 1.2m jobs vanished in the year to September; unemployment has reached 7.6%, up from 4.9% a year ago. Those still in work are finding it harder to make ends meet: real wages are down 4.3% year-on-year. Despite the weak economy, inflation is nudging double digits. The central bank recently conceded that it will miss its 4.5% inflation target next year. Markets don't expect it to be met before 2019.

If fast-rising prices are simply a passing effect of the Brazilian currency, the Real's, recent fall, which has pushed up the cost of imported goods, then they are not too troubling. But some economists have a more alarming explanation: that Brazil's budgetary woes are so extreme that they have undermined the central bank's power to fight inflation—a phenomenon known as fiscal dominance.

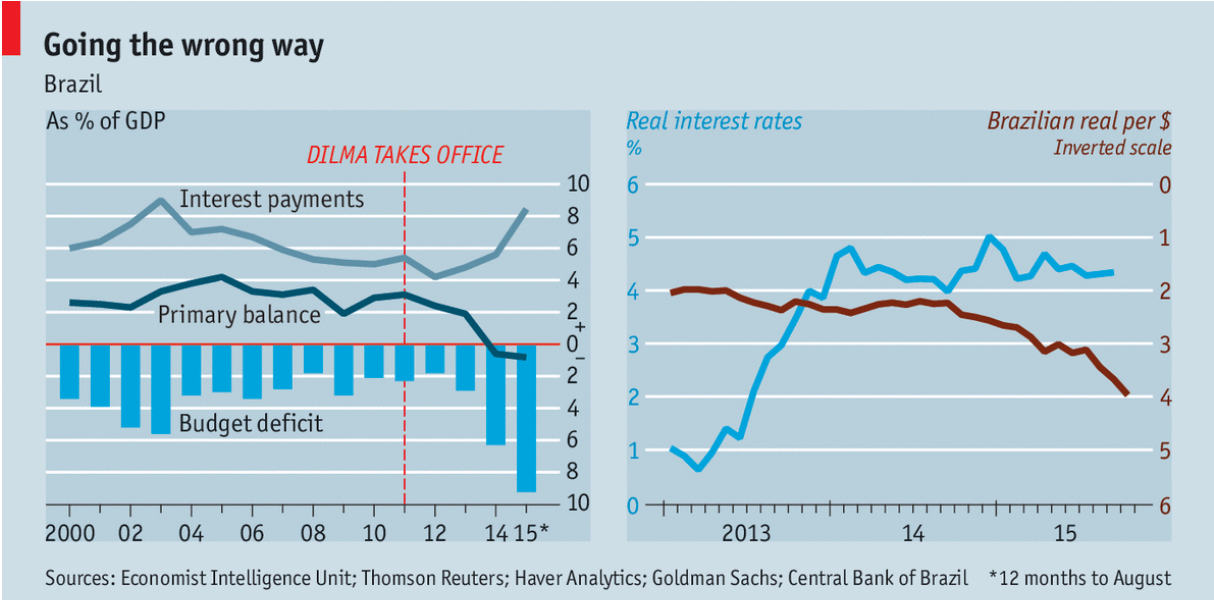
The immediate causes of Brazil's troubles are external: the weak world economy, and China's faltering appetite for oil and iron ore in particular, have weakened both exports and investment. But much of the country's pain is self-inflicted. The president, Dilma Rousseff, could have used the commodity windfall from her first term in 2011-14 to trim the bloated state, which swallows 36% of GDP in taxes despite offering few decent public services in return. Instead, she splurged on handouts, subsidised loans and costly tax breaks for favoured industries. These fuelled a consumption boom, and with it inflation, while hiding the economy's underlying weaknesses: thick red tape, impenetrable taxes, an unskilled workforce and shoddy infrastructure.

The government's profligacy also left the public finances in tatters. The primary balance (before interest payments) went from a surplus of 3.1% of GDP in 2011 to a forecast deficit of 0.9% this year. In the same period public debt has swollen to 65% of GDP, an increase of 13 percentage points. That is lower than in many rich countries, but Brazil pays much higher interest on its debt, the vast majority of which is denominated in Reals and of relatively short maturity. It will spend 8.5% of GDP this year servicing it, more than any other big country. In September it lost its investment-grade credit rating.

Stagflation of the sort Brazil is experiencing presents central bankers with a dilemma. Raising interest rates to quell inflation might push the economy deeper into recession; lowering them to foster growth might send inflation spiralling out of control. Between October last year and July this year, the country's rate-setters seemed to prioritise price stability, raising the benchmark Selic rate by three percentage points, to 14.25%, where it remains.

The alluring real rates of almost 5% ought to have made Reals attractive to investors. Instead, the currency has lost two-fifths of its value against the dollar over the past 12 months. It is this pattern of a weakening currency and rising inflation despite higher interest rates, combined with a doubling of debt-servicing costs in the past three years (see chart), that has led to the diagnosis of fiscal dominance. The cost of servicing Brazil's debts has become so high, pessimists fear, that rates have to be set to keep it manageable rather than to rein in prices. That, in turn, leads to a vicious circle of a falling currency and rising inflation.

Figure one



Economist.com

Monica de Bolle of the Peterson Institute for International Economics reckons that the Selic should be 2-3 percentage points higher than it is in order to anchor inflation expectations. If the Selic rose by that much, however, it might actually stoke inflation, by adding to the government's already hefty interest bill and thus raising the risk of default—a prospect that would cause the Real to slump and inflation to jump. Alternatively, the central bank could print money to buy government bonds. But such monetisation would itself fuel inflation. Either way, spooked investors would surely dump government bonds for foreign assets, speeding the currency's fall and inflation's rise.

Brazil has been caught in such a trap before, most recently just over a decade ago. Interest rate rises in 2002-03 spurred inflation rather than reining it in. Prices were brought under control only owing to the fiscal restraint of Ms Rousseff's predecessor and patron, Luiz Inácio Lula da Silva, who took office in 2003.

The situation today is different, Mr Blanchard stresses. Real rates are less than half what they were in the early 2000s and only about 5% of government debt is denominated in dollars, compared with nearly half back then. The central bank's reluctance to raise the Selic further may have more to do with the impact on output than with fiscal concerns. Currency depreciation, too, could be down to general gloom about the economy rather than fear of default or money-printing. It has also made Brazil's \$370 billion in foreign reserves more valuable in domestic-currency terms—a handy cushion.

There is no question, however, that Brazilian monetary policy is at best hobbled. State-owned banks have extended nearly half the country's credit at low, subsidised rates that bear little relation to the Selic—at a cost of more than 40 billion Reals (\$10 billion) a year to the taxpayer.

Source: Adapted from The Economist 31st October 2015

The 54 countries involved cover 90% of the trade in such goods, which in turn amounts to 10% of all world trade. The deal extends the product list of the original ITA, in 1996, which included floppy disks and tape recorders, to include modern technologies such as the flash drives for smartphones. A final agreement was expected on July 24th.

ITA-II is the first big WTO trade deal since the original ITA and has been haggled over for three years. The slowness of progress was largely due to China, Japan, Taiwan and South Korea fighting over the inclusion of goods produced by infant industries they had been protecting from international competition. India stayed away from the talks altogether, citing the impact that the first ITA had on its fledgling electronics sector. China left early on, worried that South Korean flat-screen TVs and Japanese car radios would outcompete its domestic firms.

The final push for ITA-II came last November, when China agreed its own bilateral extension of the ITA with America, spurring the rest of the WTO to finish its deal. China, which has rejoined the deal, has been building up its domestic computer-chip industry for at least 15 years. In 2013 it imported more than \$230 billion-worth of materials for its semiconductor industry—more than it spent on oil.

The deal is likely to save \$13.8 billion a year in tariff payments on the \$1.3 trillion global trade in electronic goods, says the WTO. Removing tariffs will open up new markets, particularly China, which has the highest levies on such goods. Tariffs on semiconductors, used in electronic circuits, are as high as 25% in some countries. Although the precise effects of the deal have not yet been studied, it will increase trade in electronics between East Asia, Europe and North America. All three regions both import and export large amounts of electronics—the EU exports €82 billion (\$90 billion) and imports €68 billion.

Few African or South American countries participated in the negotiations, but the WTO believes that all will benefit. More trade should be good news for a global electronics supply chain that buys materials and labour from around the world. As tariffs fall on inputs like semiconductors, the rest of the developing world ought to enjoy cheaper finished electronic goods, which could very well speed innovation at home. High-tech industries played a big part in the South Korean and Taiwanese development miracles. These took place behind tariff barriers, however. Whether those developing countries that adopt ITA-II can advance without such shelter is unclear.

Source: Adapted from The Economist 25th July 2015

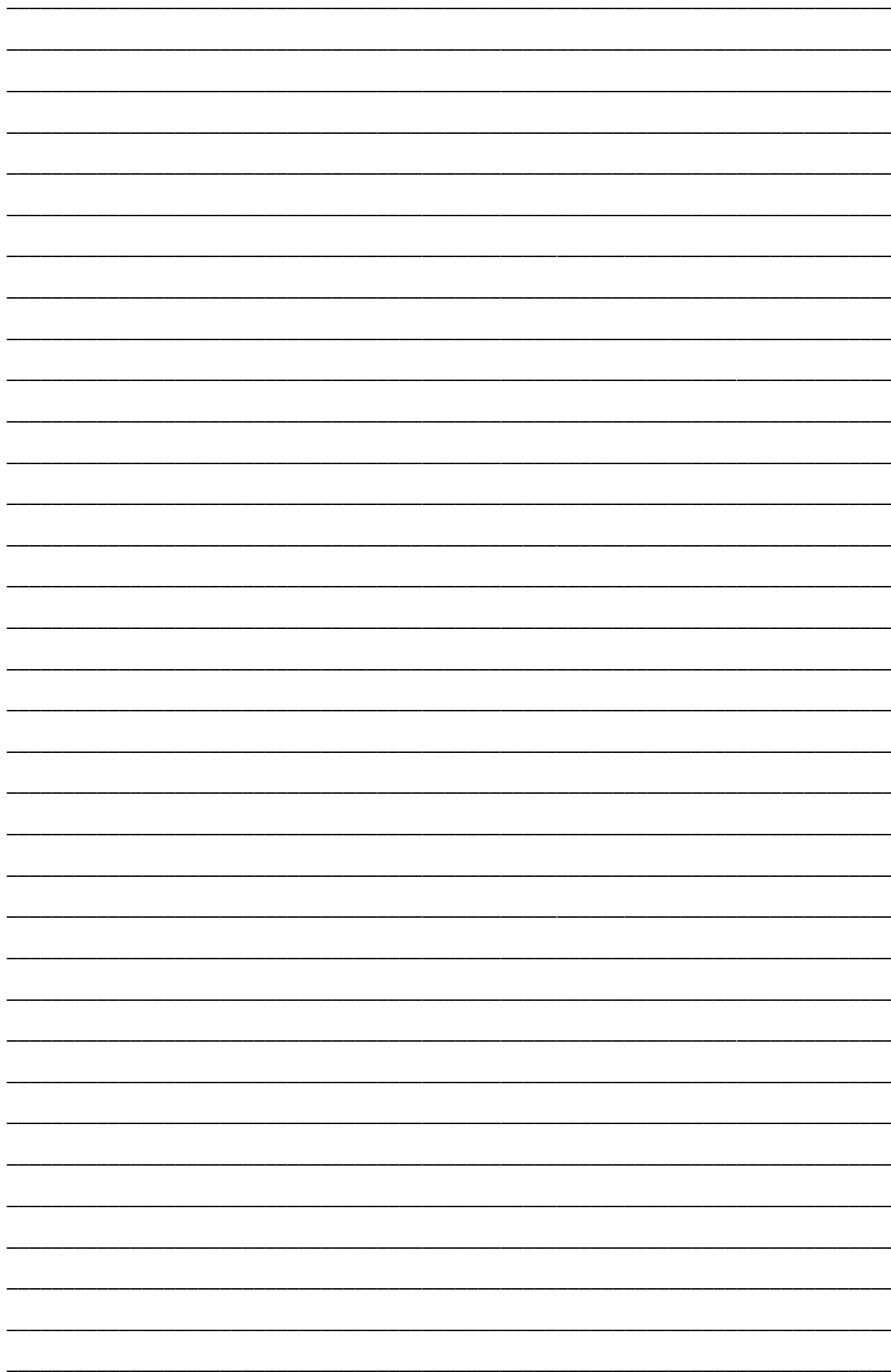
Extract C: Australia records 20th trade deficit in a row

Australia recorded its 20th monthly trade deficit in a row as it continues to suffer from the steep decline in commodity prices, while a weaker Australian dollar pushes up the prices of some key imports.

The November trade deficit was A\$2.906bn, down 11 per cent on the previous month and slightly better than market estimates of A\$2.985bn. Imports have been higher than exports in every month since April 2014 and for the last eight months the gap has exceeded A\$2bn.

Source: Adapted from The Financial Times 7th January 2016

- 5. With reference to paragraph 5 of extract B, calculate the percentage of the total global trade expected to be saved by the reduction in tariff payments. [2 marks]



Practice Paper Set 2: AQA Economics 7136/03

A Level: Economic Principles and Issues

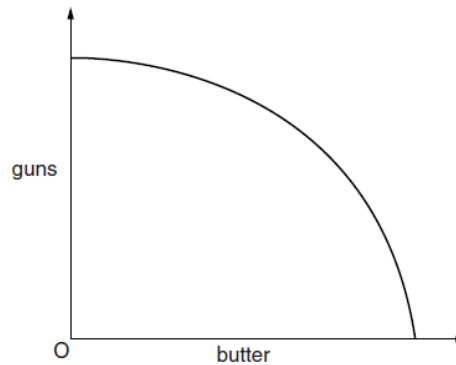
2 hours; Maximum marks: 80

Section A

Answer all questions in this section

Only one answer per question is allowed

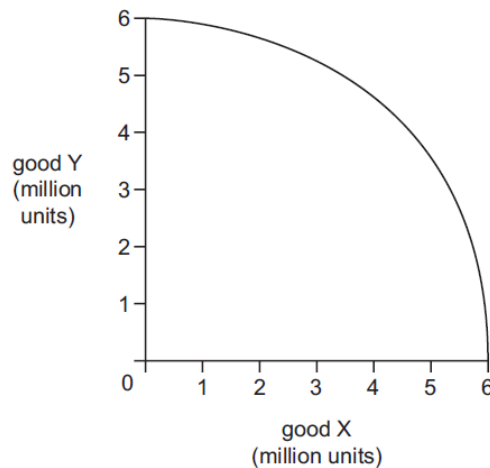
1. An economy produces two goods, guns and butter. The diagram shows the economy's production possibility frontier:



Which of the following statements is true?

- A. guns cost the same as butter
- B. at a point inside the PPF, it is impossible to increase output of both goods simultaneously
- C. the production of both goods is subject to diminishing returns
- D. the economy will want to operate at the middle point of the PPF

2. The diagram below shows the production possibility frontier for a country that produces two goods, good X and good Y. What can be concluded from the diagram?



- A. the amounts of good X and Y that the country will produce
- B. the opportunity cost of producing good X is constant
- C. the extent to which the county's scarce resources are being allocated efficiently
- D. none of the above

3. A sportswear manufacturer who specialise in basketball shoes employ a major NBA player to front a new advertising campaign. The effect of this on demand for their products, price and quantity sold will be as follows;

	Demand	Price of shoes	Quantity sold
A.	Increases	Increase	Increases
B.	Increases	Increase	Unknown
C.	Decreases	Increase	Increases
D.	Decreases	Decrease	Decrease

-
-
-
-

4. In which of the following examples is price discrimination most likely to occur?

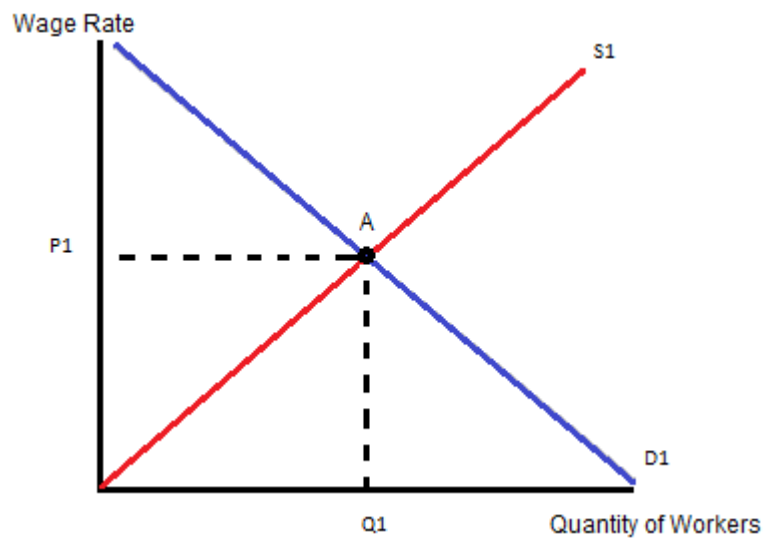
- A. the sale of basic necessities in a supermarket
- B. the sale of airline tickets for transatlantic flights
- C. the sale of app downloads on smartphones
- D. the sale of alcohol in an off-licence

5. Airlines that operate in the EU are required to purchase pollution permits under the Emission Trading Scheme. What combination of changes below would most likely result in a lower price for the permits?

	Number of permits issued	Price of kerosene (jet fuel)
A.	Increases	Increases
B.	Increases	Decreases
C.	Decreases	Increases
D.	Decreases	Decreases

-
-
-
-

6. The diagram below represents the labour market for a low-income job market. The market is currently in equilibrium at point A, where the PED for labour is also equal to -1.



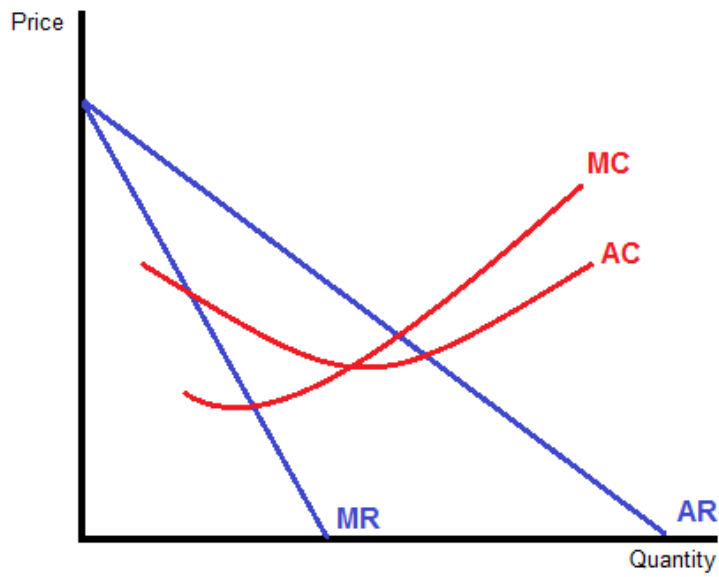
The government decide to introduce a minimum wage into this labour market, set above P1. The most likely effect of this legislation will be

- A. an increase in total income generated in this labour market
- B. a fall in the price of the product produced by this labour market
- C. an increase in employment numbers in the labour market
- D. a decrease in the total income generated in this labour market

7. A government in a South American economy currently employ a maximum price scheme for petrol. What would be the likely effect if this price control were to be removed?

- A. quantity demanded would fall for petrol
- B. external costs associated with motor vehicle use would increase
- C. the price of petrol will rise
- D. All of the above

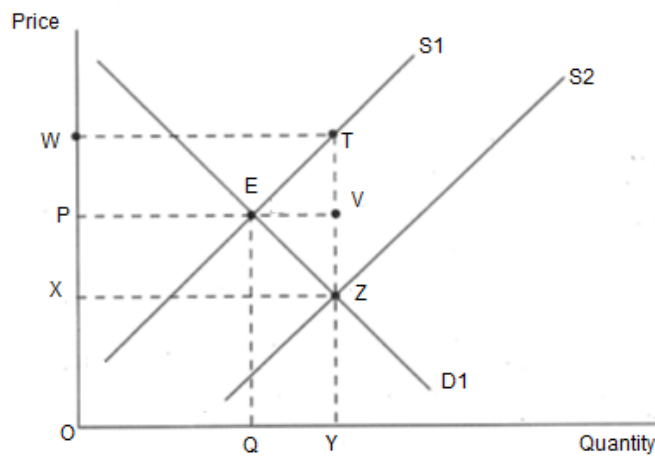
8. A monopolist decides to switch from an objective of sales maximisation to profit maximisation. What will be the effect on price and quantity?



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

-
-
-
-

9. The diagram below illustrates the market for good S, where the market is initially at equilibrium at E, and the income for the firm is area OPEQ.

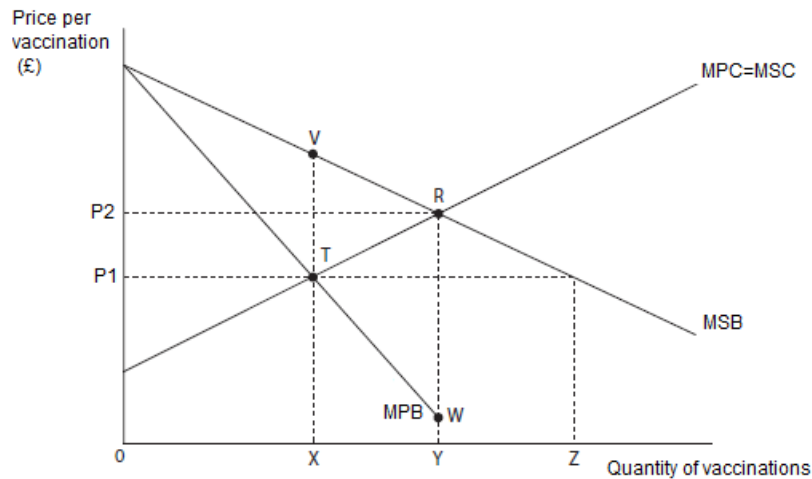


The government decide to provide a subsidy to firms that produce good S. This increases the firm's total income for producing and selling good S to

- A. WTZX
- B. WTVP
- C. XZYO
- D. WTYO

-
-
-
-

10. The diagram below illustrates the market for flu vaccinations in an economy. The free market equilibrium output level is at X.



Which area represents the area of welfare gain from the market?

- A. XVRY
- B. VRT
- C. RTW
- D. OP2RY

11. Which of the following outcomes will be true for a monopolistically competitive firm in the long run?

	Allocative efficiency	Productive efficiency	Profit	
A	No	Yes	Abnormal only	<input type="checkbox"/>
B	Yes	No	Abnormal only	<input type="checkbox"/>
C	No	No	Normal only	<input type="checkbox"/>
D	Yes	Yes	Normal only	<input type="checkbox"/>

12. The production costs for firm Z are made up of both fixed and variable costs. The firm finds that it achieves productive efficiency at an output of Q units. If output rises beyond Q, what will necessarily be true of average costs, average variable costs and average fixed costs?

- A. all of them will be falling
- B. AFC and AVC will be falling, but AC will be rising
- C. all of them will be rising
- D. AFC will be falling, but AC and AVC will be rising

13. The table below gives estimates for own-price and cross-price elasticities of demand for bottled still water and bottled sparkling water.

Product	Elasticity with respect to the price of:	
	Bottled still water	Bottled sparkling water
Bottled still water	-0.65	+1.3
Bottled sparkling water	+0.8	-1.32

What would be the change in the quantity of bottled still water demanded if the price of bottled sparkling water increased by 10%?

- A. -13.2%
- B. +12.5%
- C. -6.5%
- D. + 13%

14. Listed below are a number of proposed solutions to the market failure associated with demerit goods. Which of the policy options would be most effective in correcting the market failure?

- A. Lower taxes on the good
- B. Greater information provision
- C. Higher subsidies for complementary goods
- D. Deregulation of the industry to allow for new firms to enter the market

15. In the 1980's and early 1990's the UK government embarked on a programme of privatisation, selling public sector assets to the private sector. One of the major benefits to households of this process would be

- A. an increase in the dynamic efficiency of the private sector
- B. a reduction in production costs as firms reduce the number of employees
- C. an increase in prices as firms explore the objective of profit maximisation
- D. The creation of natural monopolies in industries with high fixed costs

16. In the short-run, which one of the following policies is most likely to help stop spare capacity in the UK economy increasing?

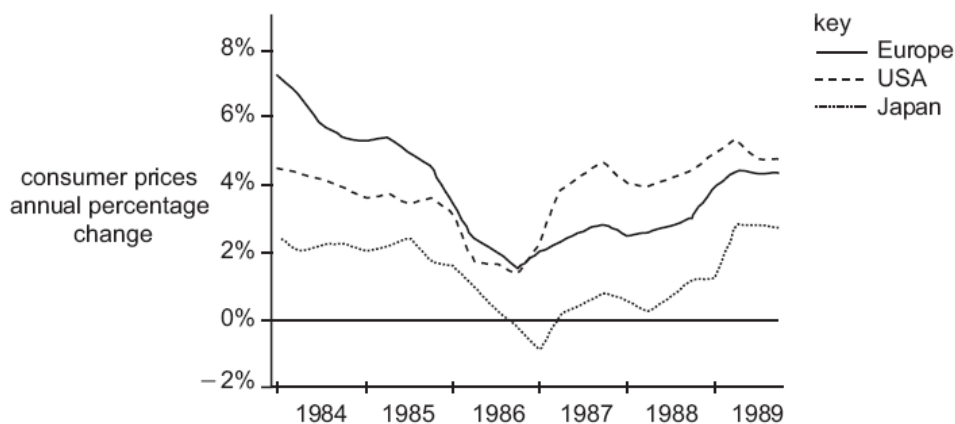
- A. a government focus on policies to raise output per worker in the economy
- B. a reversal of the Quantitative Easing process
- C. a reversal of the austerity measures implemented
- D. tax breaks offered on research and development spending by firms

17. The table below shows both the unemployment rate and inflation rate for an economy between 2009 and 2012. Which one of the following can be deduced from the table?

Year	Unemployment rate (%)	Inflation rate (%)
2009	5.1	3.7
2010	5.6	3.0
2011	4.7	3.4
2012	4.2	3.1

- A. the employment rate in the economy rose over the period
- B. there was an inverse relationship between the two objectives over the period
- C. the value of money rose throughout the period
- D. prices rose between 2009 and 2011

18. The graph below shows the annual percentage changes in consumer prices for Europe, Japan and the USA between 1984 and 1989.



Which of the following statements is correct?

- A. in 1986 consumer prices were falling in Japan, the USA and Europe
- B. in the period 1984-1987 consumer prices fell more quickly in Europe than in the USA
- C. in the period 1987-1989 the USA had the highest consumer prices
- D. in the period 1984-1989 Japan had the lowest consumer price inflation

19. In a closed economy (no international trade) the marginal propensity to save increases and tax rates remain unchanged. What effect will this have on the marginal propensity to consume and on the value of the multiplier?

- A. marginal propensity to consume increases, multiplier decreases
- B. marginal propensity to consume increases, multiplier increases
- C. marginal propensity to consume decreases, multiplier decreases
- D. marginal propensity to consume decreases, multiplier increases

20. Which of the following is most likely to result in a reduction in real GDP in an economy?

- A. a depreciation in the exchange rate
- B. a rise in average house prices
- C. an increase in income tax rates
- D. an increase in the amount the government spend on welfare payments

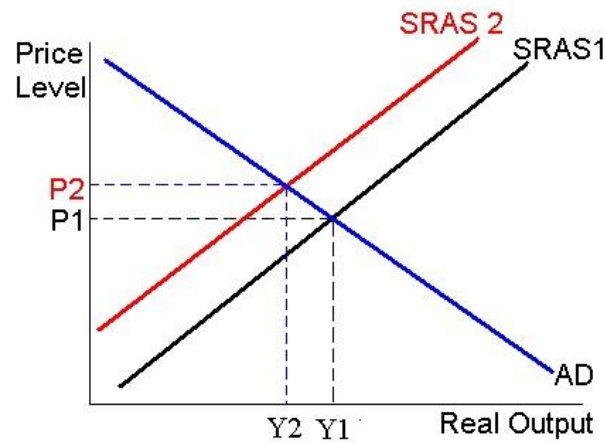
21. In one East European country, the population spends 40% of its income on potatoes, 50% on vodka and 10% on ice cream. The base period for its latest consumer prices index was January 2014.

	Potatoes (per kilo)	Vodka (per litre)	Ice cream (per litre)
January 2014	£1.25	£2.00	£2.20
January 2015	£1.35	£1.75	£2.40
January 2016	£1.50	£1.80	£2.42

Calculate the country's consumer prices index for January 2016.

- A. 106.1
- B. 104.0
- C. 105.5
- D. 106.7

22. Which factor is most likely to cause an equilibrium shift from P1/Y1 to P2/Y2?



- A. The national minimum 'living wage' rises from £7.20 to £9.00 an hour
- B. A fall in employers' national insurance contributions to help reduce the budget deficit
- C. A rise in the value of the £ against both the U.S. dollar and the Euro
- D. A rise in consumer demand fostered by a cut in the standard rate of income tax

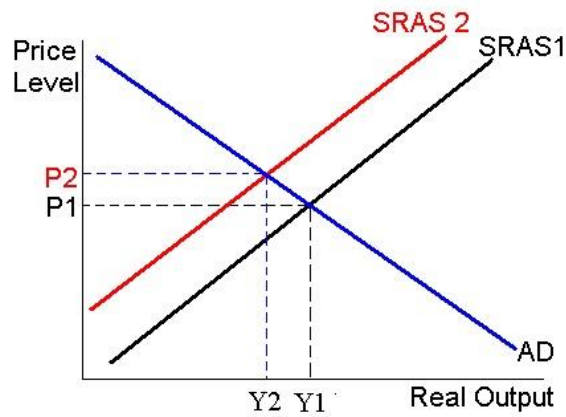
23. In 2015/16 the budget deficit was falling but the national debt was rising. What could explain this?

- A. Although the government's annual deficit fell, it was still higher than the national debt
- B. Government cutbacks in welfare spending were undermined by a worsening balance of payments
- C. As the debt is the accumulation of annual balances, every deficit, even if it is falling, adds to the debt
- D. The fall in the budget deficit would have cut the national debt if it hadn't been for one-offs such as the economic slowdown in the Eurozone

24. An injection of £10,000 into the economy eventually leads to £5,000 in extra saving, £35,000 of extra consumption and £40,000 of extra income. Therefore the multiplier can be calculated as:

- A. 8
- B. 0.5
- C. 4
- D. 3.5

25. The following diagram represents the Aggregate Demand and Short Run Aggregate Supply for the UK. Which of the following factors is most likely to have caused a shift in short run aggregate supply from $SRAS_1$ to $SRAS_2$?



- A. A rise in corporation tax leading to a reduction in investment spending
- B. Supply problems among French competitors due to industrial action
- C. A fall in the exchange rate value of the £
- D. A decision by government to cut the budget for spending on schools and colleges

26. The Gini coefficient can be used

- A. To obtain a precise calculation of the effect of price on sales volume
- B. To measure income inequality in an economy
- C. To measure the level of productivity in an economy
- D. To measure the size of the multiplier

27. The Human Development Index (HDI) comprises which four elements?

- A. Real Income at PPP, infant mortality, mean years of schooling, adult literacy
- B. Adult literacy, expected years of schooling (for children), income per capita at current prices and life expectancy
- C. Life expectancy, mean years of schooling (for adults), expected years of schooling (for children) and income per capita (at PPP)
- D. Infant mortality, adult literacy, income per capita (at PPP) and mean years of schooling

28. What might be the effect of higher interest rates on the UK's current account balance?

- A. Hot money flows push the £ up and boost the UK's exports
- B. Lower consumer spending pushes imports down, but the higher £ makes imports cheaper
- C. UK exports suffer due to lower consumer spending
- D. It will boost the UK's capital account and therefore boost the current account balance

On March 1st 2016 the U.S. government imposed the following tariffs on imported steel: China 266%, Japan 71% and Brazil 39%. Questions 29 and 30 are based on this information.

29. Which of the following represents the most likely reason for the US government's action?

- A. The US government wanting to protect the US car industry from using cheaper foreign steel.
- B. The US government wanting U.S. steel producers' supply curves to be less elastic.
- C. The US government wanting to protect senile industries from Chinese steel dumping.
- D. The US government wanting to protect infant industries from Chinese steel dumping.

30. Which of the following represents the most likely effect of the US government's action?

- A. The demand curve for US manufactured steel in the US will shift to the right.
- B. The demand curve for US manufactured steel in the US will shift leftwards.
- C. The supply curve for US manufactured steel in the US will shift to the left.
- D. The price of steel in the US will fall.

End of Section A

Section B

Answer all the questions in this section

Refer to the source booklet for Extracts A, B, C and D

INSERT

The demise of a High Street giant

- Extract A BHS battles to stay on the High Street
Extract B BHS close to offloading Oxford Street flagship
Extract C Where did BHS go wrong?
Extract D ASOS enjoys summer bloom

Extract A BHS battles to stay on the high street

Until it closed its doors in January, BHS had had a department store in Carlisle city centre for more than 30 years. The retailer, which was once British Home Stores and can trace its origins back nearly 90 years, was an anchor tenant of the Lanes shopping centre when it opened in 1984, and gave BHS a prime site right in the heart of the city.

The closure has caused controversy, not just because of the loss of 50 jobs but because it has emerged that BHS was paid more than £5m to leave the shop, with about a quarter of that coming from Carlisle city council. The council and the owner of the shopping centre were desperate to replace BHS with Primark, which will pay far more rent and potentially attract more visitors.

The events in Carlisle shine a rather different light on the problems facing BHS than its bosses have outlined. Not only does it have huge financial problems, it also has to reinvent a business regarded as old-fashioned or, as one analyst said, “irrelevant”, with no obvious place on the modern high street.

The retailer claims that it is struggling and desperately needs to restructure its finances because the rent it is paying on its shops is too high.

BHS is trying to push through a company voluntary arrangement (CVA) – an insolvency procedure – that will see rents cut at more than half of its 164 stores, with as many as 40 closing. Creditors will vote on the vital CVA on Wednesday. BHS needs 75% of creditors to vote in favour of the proposals and has warned that it will collapse into administration if it is rejected. Documents filed at the high court as part of the CVA show that BHS has debts of more than £1.3bn, including a pension deficit of £571m.

All BHS’s creditors, including suppliers, will have a vote in the CVA, despite landlords being the only ones asked to accept cuts. Darren Topp, chief executive of BHS, says he is confident of winning the vote, with a number of votes already posted to the company. “We are confident but are not complacent about that,” he said. “We will be grateful if they do. We believe we have a compelling story and a compelling turnaround. I think they [the creditors] do buy into it.”

That turnaround plan is designed to reinvent BHS, modernising stores, installing food departments, cutting the number of promotions in favour of lower everyday prices, and focusing on a smaller number of own-brand ranges.

However, the CVA document also underlines the true scale of the task facing Topp and his team even if creditors back the rent-reducing proposals. It shows that BHS still needs extra funds to be able to trade beyond 25 March and that it is trying to raise up to £100m.

The need for this extra funding shows that cutting costs is only part of the problem for BHS. The brand also needs to prove that it still has a place on the high street – and that will cost money.

“This has not happened quickly. It has happened over many years. BHS has been losing money for five years and more,” said Richard Hyman, a retail consultant. “I think it has become progressively irrelevant and it is a massive challenge to change that. I think the place to start is with understanding the customer better and editing the offers to become more relevant. It doesn’t have a place on the high street as it is. It has to change. It will need to invest money in these changes. It is not rocket science. I wouldn’t like to put a number on it, but it is going to be really tough, they have a mountain to climb.”

Sir Phillip Green owned BHS for 15 years after buying it for £200m in 2000. He initially sparked new life into the department store chain, but the online shopping revolution and the rise of new high street rivals such as Primark has taken its toll on BHS, which has lost money for several years in a row.

The retailer went on to become one of the best-known names on the high street. Today it has 164 stores and 67 franchise stores across 16 countries, employing more than 10,000 people. Despite its problems, the chain still generates one million transactions a week.

If BHS does collapse then its disappearance from the high street would have a similar impact to the recent failure of two other town centre stalwarts, Woolworths and Comet.

The billionaire eventually sold BHS last March, for just £1, to Retail Acquisitions Limited, a little-known collection of financiers, lawyers and accountants. Since then concerns about the future of the retailer, which now employs more than 10,000 staff, have only grown.

But a lot is at stake for BHS’s 10,000 staff and the 20,000 members of its pension scheme. The voluntary arrangement has triggered a process that is likely to lead to the scheme and its £571m pension deficit entering the Pension Protection Fund. For those yet to reach retirement, this means a cut of 10% to their benefits.

This week is pivotal for BHS. Even if the CVA is approved, as expected, the 88-year-old brand has a long battle ahead if it wants to enjoy a bright future on Britain’s high streets.

Source: Adapted from The Guardian “*BHS battles to stay on the High Street*” by Graham Ruddick, 20th March 2016

Extract B BHS close to offloading Oxford Street flagship

Struggling department store chain BHS is reportedly selling its Oxford Street flagship store to Abu Dhabi’s royal family.

After securing a CVA last week, it is understood that BHS is close to finalising a £55m deal with Lancer Property Asset Management who are working for the royal family, according to the *Sunday Times*.

The property group already owns the freehold of the site and wants to renovate the entire block including the London College of Fashion.

While the two parties have been in talks for several months, it is believed that the discussions have “accelerated” recently. An announcement regarding BHS’s flagship lease could be made this week.

In addition to its CVA approval, BHS is also in the process of securing a deal with American investment firm Gordon Brothers for a £60m loan.

Source: Adapted from Retail Gazette, “*BHS close to offloading Oxford Street flagship*” by Talya Misri 29th March 2016

Extract C Where did BHS go wrong?

Retail Acquisitions, the new owner of BHS, is hoping to secure £70m in funding to rescue the beleaguered chain just months after acquiring it.

Last year BHS posted a loss before tax of £85m, before Retail Acquisitions bought the struggling British department store for just £1 in March from Arcadia tycoon Sir Philip Green.

In a statement Retail Acquisitions said: “We have said all along that we would refinance to help accelerate the turnaround plan for the UK business. Every penny raised will support the regeneration of our portfolio of stores, returning this iconic British brand to its rightful place on the high street.”

BHS, which operates 171 stores in the UK and almost 80 overseas, was forced to re-mortgage its flagship store on London's Oxford Street since buying the retail chain from Sir Philip.

For the retail veteran BHS had become a hindrance in Green's fashionable empire, which encompassed BHS as well as Burton's, Dorothy Perkins, Evans, Miss Selfridge, Outfit and Wallis. Over time the department store lost any lustre it once had, struggling to differentiate itself in a tough, fast-paced market.

What was once a beacon of high street retail failed to keep up with the fast fashion at Primark, the sexy food at Marks and Spencer, the stylish home offerings at Next and the unbeatable price promise at John Lewis. Instead, as retail analyst Nick Bubb put it, BHS was the department store that was 'Never Knowingly Not On Sale'.

Source: Adapted from Retail Gazette, "Where did BHS go wrong", by Charlotte Brown 24th August 2015

Extract D ASOS enjoys summer bloom



Source: The C suite www.thecsuite.co.uk "ASOS share price: ASC A conviction sell for 2015 at Liberum capital" 19th December 2014

Asos enjoys summer bloom as sales approach top of forecasts

Demand for summer dresses and festival wear helped business boom for online fashion retailer Asos, which said annual sales would be at the top of forecasts.

The company, whose customers include Michelle Obama and Samantha Cameron, said retail sales for the four months to 30 June 2015 increased 20%, or 24% allowing for currency movements.

Sales in Britain rose 27% and international sales, worth about 60% of the total, were up 16%, or 23% in constant currencies.

Nick Robertson, Asos's chief executive, said top-selling items included sequined miniskirts, structured sun dresses, dungarees and boots for festivals bought by customers in their 20s.

In the UK, new brands such as Misguided and Boohoo helped increase sales. The company also extended its cutoff time for next-day delivery to midnight from 10pm and simplified its smartphone app.

The company, which sells in about 200 countries, blamed weak international sales caused by the strong pound making goods expensive and it also suffered a fire at its main depot in Barnsley.

Marking Schemes and Advice

Please read the marking guidance that follows

An Introduction to marking

AQA mark schemes are in two parts: specific guidance is given on possible lines of answer to the question set; and there are also generic levels of response grids that describe the characteristics of a quite good or very good response.

The key to accurate marking is to decide whether or not the question is being tackled directly, and if it is, decide which level of response best describes the answer. In order to achieve, say, a Level 4 response, the answer does not have to fulfil every statement in that response level. It must simply be the Level that best describes the quality of the student answer.

It is important to be aware, though: answers that fail to address the question directly will usually receive very disappointing marks.

The section that follows contains the generic mark grids. Please use these in conjunction with the specific content guidance for each question.

Generic Mark Schemes.

When your students are tackling 9, 15 and 25 mark questions, please refer to these generic schemes. For your convenience we recommend copying these and sticking them into your mark book or on the wall near your desk.

Generic Mark Schemes

9-mark questions

Level of response	An answer that:	Max 9 marks
3	<ul style="list-style-type: none">• is well organised and develops one or more of the key issues that are relevant to the question• shows sound knowledge and understanding of relevant economic terminology, concepts and principles• includes good application of relevant economic principles and/or good use of data to support the response• includes well-focused analysis with a clear, logical chain of reasoning• includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7–9 marks
2	<ul style="list-style-type: none">• includes one or more issues that are relevant to the question• shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present• includes reasonable application of relevant economic principles and/or data to the question• includes some reasonable analysis but it might not be adequately developed and may be confused in places• may include a relevant diagram.	4–6 marks
1	<ul style="list-style-type: none">• is very brief and/or lacks coherence• shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely• demonstrates very limited ability to apply relevant economic principles and/or data to the question• may include some very limited analysis but the analysis lacks focus and/or becomes confused• may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1–3 marks

Generic mark scheme: 15-mark questions

Level of response	Response	Max 15 marks
3	<p>A good response provides an answer that:</p> <ul style="list-style-type: none"> • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning. 	11–15 marks
2	<p>A reasonable response provides an answer that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places. 	6–10 marks
1	<p>A weak response provides an answer that:</p> <ul style="list-style-type: none"> • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused. 	1–5 marks

Generic mark scheme: 25-mark questions

Level of response	Response	Max 25 marks
5	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion. 	21–25 marks
4	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation. 	16–20 marks
3	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. 	11–15 marks
2	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported. 	6–10 marks
1	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported. 	1–5 marks

Practice Paper Set 1: AQA Economics 7136/01

A Level: Markets and Market Failure

Mark Scheme

Section A

Total for this Context: 40 marks

Context 1

1. Using the data in Extract A1 to calculate the sales total (in £s) for the 4 largest firms in the market for yoghurt. [2 marks]

4 leading companies' market share = $29 + 17 + 9 + 9 = 64\%$ (1)

64% of £2 billion = £1.28bn (1) for the mark, it must be presented correctly: £bn (or £1,280m)

2. With reference to Extract A1, explain the possible purpose behind 'a nudge to consumers'.

[4 marks]

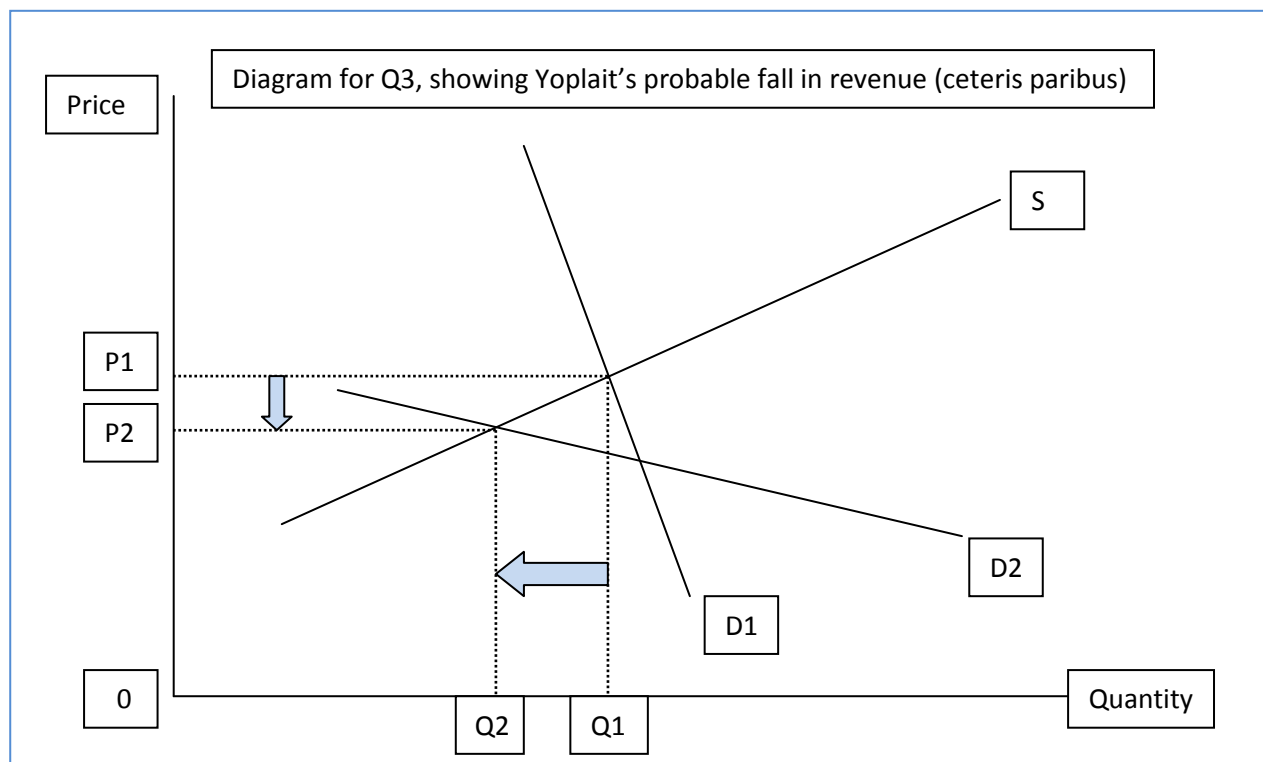
Response:	Max
<ul style="list-style-type: none">includes evidence that shows a clear understanding of 'nudge' economicsclearly explains how the data contextualises the use of a nudge	4 marks
<ul style="list-style-type: none">includes evidence that shows an understanding of nudge economicsunclear explanation of how the data contextualises the use of a nudge	3 marks
<ul style="list-style-type: none">includes evidence that shows some understanding of nudge economicslimited explanation of how the data contextualises the use of a nudge	2 marks
<ul style="list-style-type: none">shows limited understanding of nudge economicsno explanation of how this data contextualises the use of a nudge	1 mark

A 'nudge' is a way of pushing consumer behaviour towards a more socially optimal position. Taxation is often a preferred market solution, but is disproportionately punishing for the less well-off and therefore can be seen as socially – even morally – unfair. A nudge could work at correcting an information failure – leading consumers to make choices that are better for them (and their dependents)

3. Using a diagram, explain the impact on the revenue generated by Yoplait yoghurt if changes to its recipe make the yogurt less distinctive. [9 marks]

- A less distinctive product is likely to make the product become steadily more price elastic. Branding and advertising are unlikely to maintain the price inelasticity of a product that is no longer distinctive. Therefore, as the diagram shows, the demand curve will become flatter (for a given price change, the change in demand will be greater)
- Less distinctiveness is also likely to lead to a reduction in market share/sales in a market in which own label sales are significant. If there's nothing special about Yoplait, why not buy Sainsbury's at a lower price?
- In the diagram, the equilibrium before the recipe change is at P_1Q_1 . This generates a revenue of $P_1 \times Q_1$. Once the recipe changes have affected consumer buying behaviour, the demand will

flatten from D1 to D2 and a new equilibrium be established at P_2Q_2 . Revenue falls to a new level of $P_2 \times Q_2$.



4. Using the data in the extracts and your economic knowledge, assess the extent to which ‘nudge economics’ may be preferable to taxation when attempting to tackle obesity. [25 marks]

Areas for discussion include

- The inevitability that indirect taxation will be regressive in its impact on less affluent consumers
- The likelihood that taxation will have little or no effect on the most affluent, for whom the tax on Coca-Cola or (potentially) Activia would be inconsequential within their shopping basket
- On the other hand taxation will affect the buying behaviour of many, largely through the substitution effect. Adults and kids will still want treats, but if highly-sweetened yoghurts cost more than strawberries, the health benefits may be significant
- As for the nudge approach, there is the theoretical support for behavioural economics that comes from many quarters, especially Sunstein and Thaler – as in Extract A2. To these authors, a nudge ‘must be easy and cheap to avoid’ and should not ‘sacrifice the freedom to make our own choices’. This suggests a minimalist approach that probably sees excessive paternalism in any serious government attempts to tackle obesity.
- In turn, that points to a serious question: is it right for government to get involved in obesity in the same way that it has tackled smoking and alcohol? Aren’t the latter social problems while the former is an individual one? In which case perhaps nudging is more appropriate than taxation and bans (on junk food, say)? But in the UK that still leaves the opportunity cost consideration of the cost of obesity to the NHs, and therefore the trade-offs that are involved.
- Given the complexities of the argument, it might be fair to say that ‘non-coercive’ nudges are the most appropriate way to deal with adult obesity, within which genuine information may prove

the most important. Given that young children are less able to assimilate facts about obesity, a different approach should surely be taken. Possibly not even taxation will do in this case. Outright bans are valid when it comes to advertising and promotion fatty and sugary foods to kids. Perhaps the McDonald's Kids' Meal should be the first to go – followed by sugary 'kids' yoghurts.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question

MAXIMUM FOR Q4 25 MARKS

5. Using the data in extract B, calculate the percentage of total GDP estimated to be gained from the building of a third runway at London Heathrow. [2 marks]

Calculation

$$£211bn/£1,829bn = 11.53\%$$

Response	Marks
For the correct answer with the % sign, to 1 decimal place	2 marks
For a correct answer but without the % sign and/or not to one decimal place	1 mark

MAXIMUM FOR Q5 2 MARKS

6. With reference to extract C, explain what is meant by an external cost [4 marks]

Response:	Max
<ul style="list-style-type: none"> includes evidence that shows a clear understanding of what is meant by an external cost clearly explains how this data provides evidence of external costs 	4 marks
<ul style="list-style-type: none"> includes evidence that shows an understanding of what is meant by an external cost unclear explanation of how this data provides evidence of external costs 	3 marks
<ul style="list-style-type: none"> includes evidence that shows some understanding of what is meant by an external cost limited explanation of how this data provides evidence of external costs 	2 marks
<ul style="list-style-type: none"> shows a limited understanding of what is meant by an external cost no explanation of how this data provides evidence of external costs 	1 mark

Relevant issues include

Clear understanding of the term external cost

This may include

- $SMC > PMC$
- Third party costs that are not included in the price mechanism
- Results in market failure, as market output level is higher than social equilibrium/reference to overproduction

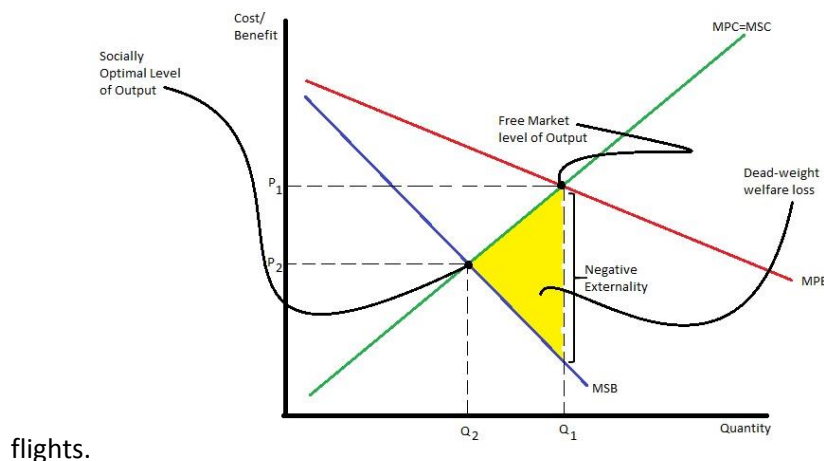
- Reference to allocative inefficiency/deadweight welfare loss
- Reference to 'environmental effect', 'questions of noise, of birdlife and the extra fumes', 'aviation's contribution to global warming'

MAXIMUM FOR Q6 4 MARKS

7. Using a diagram to support your answer, explain the impact of increasing the number of flights into Heathrow airport. [9 marks]

Relevant issues include

- Increase in UK trade and GDP
- Increase in number of businesses wanted to relocate to London/Thames Valley region
- Creation of extra jobs at Heathrow airport and local businesses
- Increase in demand for overseas travel
- Fall in price of air travel/freight due to increase in supply
- Fall in demand for other forms of cargo transport e.g. shipping from UK ports
- Higher external costs from air travel/freight and operation of Heathrow
- Increase in number of flights will increase demand/price for carbon permits
- Relevant diagram to show increased external costs from consumption of extra



MAXIMUM FOR Q7 9 MARKS

8. Using the data in the extracts and your economic knowledge, assess the measures a government could adopt to reduce the environmental impact associated with increasing air travel. [25 marks]

Areas for discussion include

- Policies open to government include
 - Taxation on the builders to Heathrow to compensate those experiencing noise and related pollution.
 - Taxation on air travel, such as air passenger duty
 - Subsidies to improve the quality of air around the airport or to reduce noise and pollution associated with flying – subsidising research and development by Airbus and Boeing.
 - Extending property rights – transferring ownership of the air around the airport to allow for appropriate compensation.
 - Education & advertising to encourage people to fly less or offset their carbon use
 - Regulation of pollution levels and timings that planes can land and take off.

- Relevant application of tradable permits – associated with restrictions on number of flights allowed from Heathrow.
- Benefits associated with Heathrow expansion limited if too many flights are restricted
- Taxation may make Heathrow and Britain less economically competitive
- Subsidies may not be sufficient to result in improvements
- Subsidies have an opportunity cost associated with them
- Subsidies may result in a free rider as other countries benefit from improvements in airline technology, despite British investment
- How far should property rights be extended around the airport?
- How far around the airport should the measures installed to mitigate against noise and air pollution be installed?
- Education & advertising the concerns associated with flying may not make any impact on overall air travel, given years of associated education and a greater desire to fly as incomes rise.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

MAXIMUM FOR Q8 25 MARKS

9. Explain the causes of income inequality in the UK.

[15 marks]

Relevant issues include

- Inequality arises from differences in
 - Skills and training
 - Education
 - Age/experience
 - Bonus and performance related pay to executives
 - Gender discrimination
 - Levels of unemployment/structural unemployment
 - Ownership of assets/distribution of wealth
 - Pension rights
 - Inheritance legislation
 - Regressive vs. progressive tax systems
 - Welfare system deficiencies

MAXIMUM FOR Q9: 15 MARKS

10. Discuss the impact of an increase in the National Living Wage on employees and employers.

[25 marks]

Relevant issues include

- Impact on employees
 - Higher incomes, higher standard of living
 - Increase in incentive to work, may opt to work longer hours
 - Risk that firms cut back on workers, so some workers may lose jobs

- Reduction in relative poverty level/inequality
- May result in the loss of other work-related benefits e.g. Café Nero no longer provide free lunch for employees
- Impact on employers
 - Higher costs of production, so may need to charge higher prices
 - Lower profit margins
 - May be forced to cut workers, resulting in redundancy payments
 - May benefit from higher levels of productivity due to more motivated workers
 - Loss of competitiveness to foreign firms
- Evaluation may include
 - Depends on level that NLW is set at
 - The impact of the NLW will be different in different parts of the UK, where the cost of living differs
 - Depends on how rigidly enforced NLW is by government
 - Depends on number of employees in a firm that are affected
 - Impact on firms will depend on PED for final product- if PED for product is inelastic, higher labour costs can be passed on to consumers

MAXIMUM FOR Q10: 25 MARKS

11. Explain the circumstances in which it may be helpful to present graphical data indexed to a base period. [15 marks]

In the graph shown, the data is 'raw', i.e. unprocessed; it's just sales in £s. In this case it works very well because it shows both the trends over time and the changing Top 3 rank order. It's probably true to say that, when possible, raw data is the best form of data – allowing the user to draw their own conclusions.

But sometimes indexing is needed. The most obvious occasion is when you're trying to compare two sets of data that are either on a completely different scale, or are of a different magnitude. In the latter case there might be an occasion when it would be useful to compare sales growth at Twinings with the growth of a small, perhaps Organic-only, producer. If the small producer's sales had grown from £2m a year to £7m, putting the raw data on the same graph as Twinings would make the rate of growth impossible to detect. By contrast if the sales of Twinings and Organic X were both indexed with 2004 as the base period (100), the different rates of growth would be shown clearly.

Other relevant issues:

- Indexing data allows one variable such as wages to be compared easily with another (say prices/inflation)
- Indexing may make the data easier to understand than a complex category such as \$billions or tonnes

12. Evaluate the factors that might influence the price elasticity of demand for Twinings tea. (25 marks)

Relevant issues include

- The graph shows that Twinings is enjoying strong sales. The growth from nowhere to Number 2 in the market is very impressive. So why has Twining been able to get considerable growth (since 2004) despite its premium pricing? It must have managed to get the price elasticity of demand down to a low level, perhaps by:
- Achieving sharp product differentiation compared with its rivals. This may have come from a different product range, different image and posher packaging. Twinings is more of a treat than PG Tips. So its 'specialness' may differentiate it
- It seems that Twinings has been very well managed in terms of marketing. The brand adds value not only to the more unusual teas, but also to the 'Everyday Breakfast Tea' (for posh builders)
- Consumer taste may also be an important factor. People may assume that fruit teas are in some way healthier than traditional tea – and that is a sector where Twinings is stronger than PG Tips and Typhoo
- Or it may simply be that Twinings has had more marketing spend invested in it – helping to create a better, more differentiated image – either through traditional media or through newer digital media such as Facebook

MAXIMUM FOR Q12: 25 MARKS

13. Explain the factors that determine the demand for tattoos

[15 marks]

Relevant issues include

- Increasing availability/falling prices
- Increasing number of celebrities and famous people sporting tattoos e.g. Samantha Cameron
- Reduced health risk associated with modern day tattoo studios
- Reduced regulation e.g. age restrictions
- Increasing expenditure on areas of personal grooming

MAXIMUM FOR Q13: 15 MARKS

14. Evaluate the determinants of the market structure that best resembles the tattoo artist market.

[25 marks]

Relevant issues include

Reference to monopolistic competition
 Short and/or long run diagrams
 Reference to product differentiation and perception of different quality of service
 Loyalty to particular parlours or tattoo artists
 Low barriers to entry- low start-up costs, level of training required
 Reference to low profit/Normal profit only
 Ease of access to technology/knowledge
 Evidence of large number of new tattoo parlours opening up in recent years

Possible evaluation points include

Government regulation/health and safety controls may make entry into industry more difficult
 In some areas of the country tattoo parlours may face limited competition
 Loyalty may be to artist, not the tattoo parlour
 Tattoo franchises may have larger market share than independent firms

MAXIMUM FOR Q14: 25 MARKS

Practice Paper Set 1: AQA Economics 7136/02

A Level: National and International Economy

MARK SCHEME

Section A

Total for this Context: 40 marks

Context 1

1 With reference to Figure 1, calculate the percentage change in unemployment from 2012 to 2015 [2 marks]

Calculation: Unemployment in 2012 15% and in 2015 8.5%. Therefore unemployment has fallen by $-6.5\%/15\% = 43.3\%$ (accept answers using a range of data from 14.5% to 15.5% for 2012 and 8% to 9% for 2015)

Response	Marks
For the correct answer with the % sign, to 1 decimal place and reference to falling unemployment (this can be done with a negative symbol)	2 marks
For a correct answer but without the % sign and/or not to one decimal place and/or no reference to falling unemployment	1 mark

MAXIMUM FOR Q1 2 MARKS

2. With reference to extract A, explain what is meant by a *Central Bank*

[4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none">• includes evidence that shows that a clear understanding of what is meant by a Central Bank• clearly explains how this data explains the role of a Central Bank	4 marks
<ul style="list-style-type: none">• includes evidence that shows an understanding of what is meant by a Central Bank• unclear explanation of how this data explains the role of a Central Bank	3 marks
<ul style="list-style-type: none">• includes evidence that shows some understanding of what is meant by a Central Bank• limited explanation of how this data explains the role of a Central Bank	2 marks
<ul style="list-style-type: none">• shows limited understanding of what is meant by a Central Bank• no explanation of how this data explains the role of a Central Bank	1 mark

Relevant issues include

Clear understanding of the meaning of a Central Bank or specifically the ECB

- The government's bank
- Lender of last resort
- Power to set interest rates
- Control of money supply
- Financial sector regulator
- Reference to the role of the ECB in setting interest rates for Eurozone
- Supporting and stabilising economies like Cyprus, Malta, the Baltic states or Greece,
- Role played in quantitative easing
- Macroprudential tools – placing caps on the value of loans that banks can extend.

MAXIMUM FOR Q2 4 MARKS

3. With reference to extract A, and the help of a diagram explain the benefits Ireland might expect to receive from an increased level of Foreign Direct Investment (FDI) [9 marks]

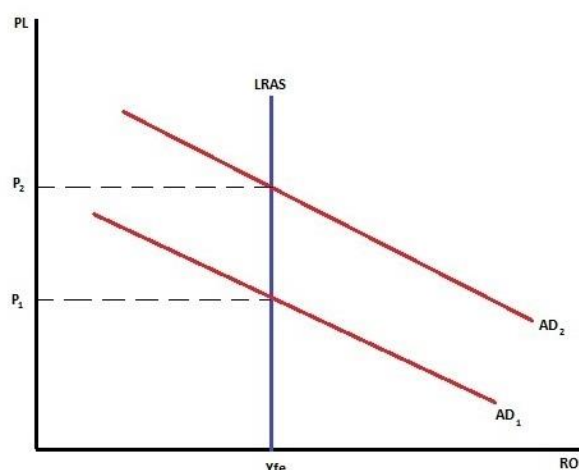
Relevant issues include

Microeconomic benefits

- Increased choice for consumers
- Increased competition and therefore greater productive and allocative efficiency
- Lower prices – therefore increased consumer welfare/consumer surplus
- Potential for domestic businesses to learn from new entrants to the market.

Macroeconomic benefits

- Increased employment
- Reduced inflation as a result of increased competition between firms
- Increased economic growth
- Increased incomes and living standards
- Multiplier effect on related industries and those serving those with increased earning power
- Increased tax revenue from foreign firms paying tax in the country where they have invested.
- Increased AD shown on the diagram, as below.
- In the LR there may also be an increase in the LRAS, which can be shown also on the diagram.



MAXIMUM FOR Q3 9 MARKS

4. With reference to the extract and your own knowledge, discuss the case for a country's membership of a single currency such as the Euro. [25 marks]

Areas for discussion include

- Common interest rate & loss of monetary control
- Loss of fiscal control due to Fiscal compact (or reference to stability and growth pact)
- Economies intertwined
- Economic convergence
- Support for less economically stable nations – fiscal bailouts i.e. Greece
- Loss of ability of the currency to adjust to economic difficulties
- Increased trade
- Fall in transaction costs
- Greater currency stability
- Fall in inflationary pressures, as the economy is tied to bigger more economically stable nations

- Greater chance of workers relocating to places of economic growth – no financial restrictions on savings, loans etc
- Price transparency should result in a fall in prices.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate’s response to the question.

MAXIMUM FOR Q4 25 MARKS

5. With reference to paragraph 1 of extract B, calculate the percentage difference in the unofficial “Blue dollar” exchange rate and the official exchange rate. [2 marks]

Calculation

Blue Dollar rate 14.5 pesos to the dollar and the official rate is 9.9 peso to the dollar.

$14.5 - 9.9 = 4.6$ $4.6 / 9.9 = 46.5\%$ higher than the official rate.

Response	Marks
For the correct answer with the % sign, to 1 decimal place	2 marks
For a correct answer but without the % sign and/or not to one decimal place	1 mark

MAXIMUM FOR Q5 2 MARKS

6. Explain what is meant by the terms *freely floating exchange rate* and *fixed exchange rate*. [4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none"> • includes evidence that shows a clear understanding of the terms freely floating exchange rate and fixed exchange rate • clearly explains how this data is evidence of the difference between the terms freely floating exchange rate and fixed exchange rate 	4 marks
<ul style="list-style-type: none"> • includes evidence that shows an understanding of the terms freely floating exchange rate and fixed exchange rate • unclear explanation of how this data is evidence of the difference between the terms freely floating exchange rate and fixed exchange rate 	3 marks
<ul style="list-style-type: none"> • includes evidence that shows some understanding of the terms freely floating exchange rate and fixed exchange rate • limited explanation of how this data is evidence of the difference between the terms freely floating exchange rate and fixed exchange rate 	2 marks
<ul style="list-style-type: none"> • shows a limited understanding of the terms freely floating exchange rate and fixed exchange rate • no explanation of how this data is evidence of the difference between the terms freely floating exchange rate and fixed exchange rate 	1 mark

Relevant issues include

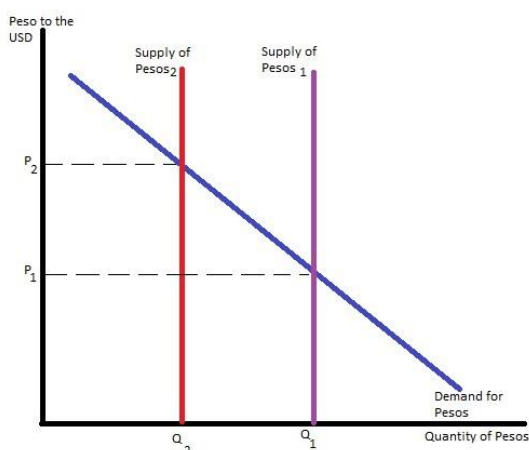
Clear understanding of the meaning of freely floating exchange rate and fixed exchange rate

This may include

- Currency set by the market/ interaction of demand and supply
- Exposed to potential external shocks
- Set by the central bank
- Requires central bank intervention/exchange controls
- Role of financial reserves in determining the rate of the currency

MAXIMUM FOR Q6 4 MARKS

7. With reference to extract B and the help of a diagram explain how the Argentine Central Bank would have fixed the Peso against the US Dollar. [9 marks]



Relevant issues include

- Imposition of currency/exchange controls – reference to El cepo
- Use of intervention by the central bank – reference to the need to protect foreign currency reserves by imposing exchange controls
- Reference to the diagram and how exchange controls will limit the supply of pesos and therefore artificially appreciate the value of the currency and then maintain it at the desired exchange rate.

Do not reward reference to the increase in interest rates as this is used after the abandonment of exchange controls

and the freeing up of the currency to float.

MAXIMUM FOR Q7 9 MARKS

8. Evaluate the use of demand management and supply side policies to promote economic recovery in Argentina. [25 marks]

Areas for discussion include

- Use of expansionary fiscal policy
- Use of expansionary monetary policy
- Use of supply side policies
- Time lags associated with the various policies
- Prioritisation of each policy
- Relative size (how much do taxes fall by) and scope of each policy
- The wider impacts – including opportunity costs of cutting taxes
- Discussion as to the effectiveness of the policies
- Potential for inflation with the use of demand management policies

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

MAXIMUM FOR Q8 25 MARKS

9. Explain, with the help of a diagram, how a reduction in interest rates and the value of the Chinese currency could stimulate growth in the Chinese economy. [15 marks]

Relevant issues include

- Stimulates AD- AS diagram to illustrate the increase in real GDP
- Increases exports – export led growth and employment increases
- Borrowing is cheaper – therefore investment increases
- Increased opportunity cost of saving therefore consumption increases
- Mortgages are cheaper therefore demand for housing increases – positive wealth effect
- Savings in other mediums such as the stock market increase

MAXIMUM FOR Q9: 15 MARKS

10. Discuss the impact of a slowdown in the Chinese economy on the rest of the world. [25 marks]

Relevant issues include

- Impact on commodity exporters especially in LEDCs
- Impact on those countries that are primary product dependent
- Impact on western exporters of manufactured goods
- As commodity prices fall investment in commodity markets falls – oil exploration investment has fallen since fall in the price of crude oil
- Increased unemployment
- Potential impact on economic slowdown and therefore potential impact on global stockmarkets
- Global importance of the Chinese economy
- How long will the slowdown last?
- Will growth in other markets compensate for loss of Chinese demand
- Lower prices of goods in other countries as demand for commodities fall
- Reduction in inflation

MAXIMUM FOR Q10: 25 MARKS

11. Explain the differences between a customs union, trading block and single market [15 marks]

Relevant issues include

- Customs Union – free trade amongst members, with a common external tariff – examples European Economic Community, pre single market or Gulf Cooperation Council
- Trading block – free trade amongst members, without a common external tariff – examples include NAFTA, CAFTA and Mercosur
- Single Market – free movement of goods, capital and labour, with a common external tariff – examples include the European Union (don't reward the use of the Eurozone as an example of a single market)

MAXIMUM FOR Q11: 15 MARKS

12. Discuss the arguments for the UK remaining a member of the European Union. [25 marks]

Relevant issues include

Remaining a member

- Gains from free trade – including increased competition, choice, lower prices
- Trade creation
- Gains from FDI as a result of free trade
- Export led growth
- Increased employment
- Increased mobility of labour, allowing EU citizens to fill shortage jobs and keep wages from inflating
- Have a common external tariff
- Harmonised regulation between member states
- Access to one of the largest economic markets

Other arguments associated with remaining a member or leaving the EU

- Have to pay a fee to be a member of the EU – therefore opportunity cost, if the UK remains a member
- Have to abide by rules set by the EU, if the UK remains a member
- Increased migration and no controls on numbers entering the UK putting pressure on domestic services if the UK remains a member
- The UK would be able to set its own tariff on goods by leaving
- Trade diversion – would be able to negotiate own free trade agreements and source the cheapest goods by leaving
- By leaving the UK will be less exposed to any economic difficulties in the EU associated with close economic ties.

MAXIMUM FOR Q12: 25 MARKS

13. Explain the main driving forces behind the growth of globalisation. [15 marks]

Relevant issues include

- WTO – lowering trade barriers and also promoting free trade agreements
- Lower transport costs
- Reduced political difficulties between East and West
- Increased role of trading blocs
- Increased communications – improved technology including use of the internet
- Increased desire to access cheaper, low cost goods.
- Increased willingness to outsource production driven by MNCs seeking to increase profits

MAXIMUM FOR Q13: 15 MARKS

14. Discuss the economic benefits associated with increased globalisation.

[25 marks]

Relevant issues include

- Increased choice for consumers
- Increased competition and therefore greater productive and allocative efficiency
- Lower prices – therefore increased consumer welfare/consumer surplus
- Potential for domestic businesses to learn from new entrants to the market.
- Gains from increased trade – related to comparative advantage
- Increased employment
- Reduced inflation as a result of increased competition between firms
- Increased economic growth from export led growth
- Increased incomes and living standards
- Multiplier effect on related industries and those serving those with increased earning power
- Increased migration of skilled workers, keeping wage growth down and therefore increasing global competitiveness
- Reduced current account deficit if the economy is able to benefit from increased trade.

Possible evaluation points include

- Domestic firms may not be able to compete with increased global competition resulting in increased unemployment
- Increased current account deficit
- Fall in tax revenue as more MNCs seek to avoid tax
- Increased growth may result in increased inflation if the economy is operating at full capacity
- Increased migration may increase strain on social services – hospitals and education
- Discussion of the most significant advantages and their overall impact.

MAXIMUM FOR Q14: 25 MARKS

Practice Paper Set 1: AQA Economics 7136/03

A Level: Economic Principles and Issues

MARK SCHEME

Key List

1. D
2. B
3. B
4. A
5. C
6. B
7. C
8. A
9. C
10. C
11. D
12. A
13. B
14. C
15. C
16. B
17. C
18. D
19. B
20. D
21. D
22. C
23. A
24. B
25. A
26. C
27. B
28. D
29. C
30. B

Section B

INVESTIGATION

Total for this investigation: 50 marks

31 Explain, with reference to the data, why it is that the Tata steel plant in Port Talbot, Wales, is losing up to £1m a day. [10]

Level of response	Response	Max marks
3	<p>A good response that:</p> <ul style="list-style-type: none"> • uses the data to explain why the Tata steel plant is losing money • is well organised and includes at least two relevant, well-developed explanations • makes effective use of the data in Extracts A, B, C or D for both comparisons. 	8–10 marks
2	<p>A reasonable response that:</p> <ul style="list-style-type: none"> • is likely to explain why the Tata steel plant is losing money, but is unlikely to consider the data in any detailed way • is fairly well organised and includes at least two relevant and fairly well-developed explanations • includes some satisfactory use of the data in Extracts A, B, C or D. 	4–7 marks
1	<p>A weak response that:</p> <ul style="list-style-type: none"> • is very brief and/or lacks coherence • might try to compare some of the explanations provided in the data • contains very limited or poor use of the data in Extracts A, B, C or D 	1–3 marks

When seeking an explanation for the losses at the Tata steel plant candidates must make use of the data provided, but may also use their own knowledge of the British steel industry.

Relevant issues include:

- Global economic slowdown and fall in demand – especially in China
- Global oversupply of steel – especially from China
- Subsidies available to other suppliers allowing them to undercut Tata and therefore reducing demand for British steel
- High energy costs – Tata steel is therefore less price competitive
- High domestic wage costs – Tata steel is therefore less price competitive
- Appreciating Pound, therefore exports of Tata steel are less price competitive
- Dumping of Chinese steel
- High costs of operating the steel plant in the UK – high business rates
- Low productivity

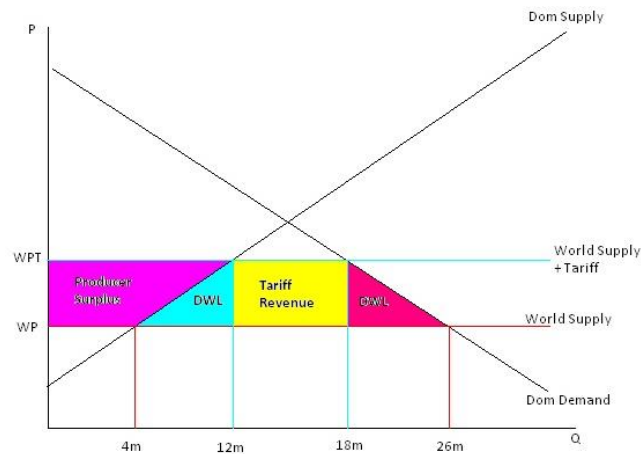
MAXIMUM MARKS FOR QUESTION 31: 10 MARKS

32 The Secretary of State and the British government have been criticised for not supporting the introduction of a tariff.

Explain, using a diagram, how a tariff may support the British steel industry in the face of Chinese competition. [15]

Relevant issues include:

- Correct diagram, showing an increase in the price of imported steel
- Reference to decreased demand for imported steel and increased domestic supply.
- Increase in derived demand for British steel workers
- Increase in revenue/profit for British steel firms



MAXIMUM FOR QUESTION 32: 15 MARKS

33 Reference is made to the UK being better off out of the European Union (Extract C). Based on the information provided and your own economic knowledge, evaluate whether or not Britain would be better off in or out of the European Union. [25]

Relevant issues

- Britain would be better off out of the EU
 - Would no longer EU contribution
 - Would be free to impose tariffs as it saw fit
 - Would be free to negotiate its own free trade agreements with other countries
 - Consumers would be better off as tariffs fall on goods from outside the EU and therefore prices fall.
 - Would have greater control over migration
 - Would be less exposed to economic difficulties in the rest of Europe

- Britain would be better off remaining in the EU
 - The EU contribution is not very large, after the rebate and receipts obtained from CAP and other funds
 - UK would lose free trade access to the EU market
 - Free trade agreements with other countries would take time to negotiate and may not be as favourable
 - Free trade with the EU may not result for a number of years
 - The UK would still need to have migrant labour to do a number of jobs, which the British have been reluctant to do in recent years
 - The UK would be limited in their ability to impose tariffs – WTO rules and possible retaliation from other countries. The UK is a much smaller economy than the whole of the EU.
 - FDI may leave the UK as it no longer can access the EU free trade area – resulting in a loss of employment

An answer that does not include any evaluation or a supported recommendation must not be awarded more than 13 marks.

MAXIMUM FOR QUESTION 33: 25 MARKS

Total for this Investigation: 50 marks

Practice Paper Set 2: AQA Economics 7136/01

A Level: Markets and Market Failure

MARK SCHEME

Section A

Total for this Context: 40 marks

Context 1

1 With reference to extract B, calculate the average number of passengers per runway using London's runways compared to the average number of passengers per runway in New York. [2 marks]

London 130 m passengers / 4 runways = 32.5m per runway

New York 114m passengers /9 runways = 12.67m per runway

Response	Marks
For both correct answers, to at least 1 decimal place	2 marks
For only one correct answer and/or not to one decimal place	1 mark

MAXIMUM FOR Q1 2 MARKS

2. With reference to extract A, explain two reasons for the growth in air travel [4 marks]

Response:	Max
	4 marks
<ul style="list-style-type: none">• includes evidence that shows a clear understanding of two reasons for the growth in air travel• clearly explains how the data provides reasons for the growth in air travel	4 marks
<ul style="list-style-type: none">• includes evidence that shows an understanding of two reasons for the growth in air travel• unclear explanation of how the data provides reasons for the growth in air travel	3 marks
<ul style="list-style-type: none">• includes evidence that shows some understanding of two reasons for the growth in air travel• limited explanation of how the data provides reasons for the growth in air travel or reference to only one reason	2 marks
<ul style="list-style-type: none">• shows limited understanding of reasons for the growth in air travel or makes reference to only one reason• no explanation of how this data provides reasons for the growth in air travel	1 mark

Relevant issues include

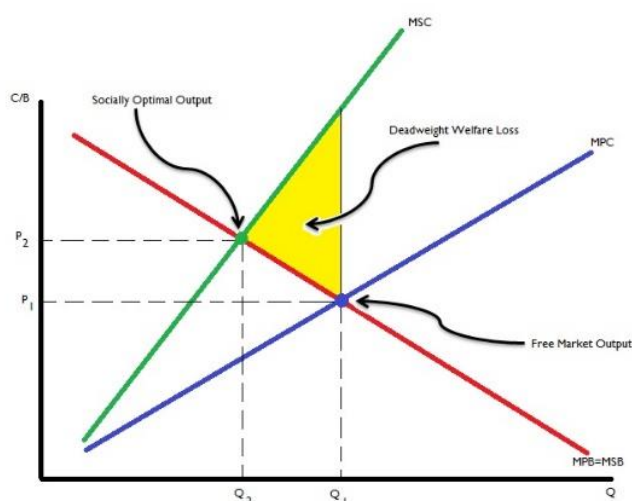
- The growth of low cost carriers and regional airlines
- Increasingly affordable flights
- Cheaper oil prices
- Rising affluence of the middle class in emerging markets

MAXIMUM FOR Q2 4 MARKS

3. Using a diagram to support your answer, explain the environmental impact of increased flights into Heathrow airport. [9 marks]

Relevant issues include

- Noise pollution
- Visual pollution
- Air pollution – increased traffic to the airport and increased flights
- Reference to negative externalities
- Diagram showing negative externalities in production i.e. in flying



MAXIMUM FOR Q3 9 MARKS

4. Using the data in the extracts and your own economic knowledge, assess the arguments for building a new runway at London Gatwick. [25 marks]

Areas for discussion include

- London runways are already being used 2.56 times more than New York airports
- Good for economy and international trade
- Lack of an additional runway will result in a loss of £31bn in lost trade with BRIC countries according to the CBI
- Increasing demand for runways/flights means that airports are almost at full capacity
- Airports have limited spare capacity when there is a problem e.g. snow and fog
- Airports have limited capacity to accommodate new routes
- Airports are less competitive because of limited space and prohibitive costs of landing slots
- Economically “bad for Britain” not building a new runway
- Lack of additional runway space adds to “congestion, raises ticket prices and damages London’s reputation as a place to do business”.
- More runways means more competition and therefore lower prices and better quality of service at the airports.
- Allow an additional 200 000 flights in to Britain each year.
- However it is worth considering the pollution that this expansion brings with it
- Is this the only area for airport expansion – could HS2 allow for greater connectivity with Birmingham airport and East Midlands?
- Could flying be replaced by video-conferencing?
- Are the benefits exaggerated by the fact that the sources tend to be people who have a reason to support the expansion of LHR and LGW?

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate’s response to the question.

MAXIMUM FOR Q4 25 MARKS

5. With reference to extract F, calculate the percentage of the total value of film and television production coming from overseas. [2 marks]

Calculation

$$1.2\text{Bn}/1.5\text{Bn} = 80\%$$

Response	Marks
For the correct answer with the % sign, to 1 decimal place	2 marks
For a correct answer but without the % sign and/or not to one decimal place	1 mark

MAXIMUM FOR Q5 2 MARKS

6. With reference to extract F, explain the benefits that Pinewood studios can expect to receive from further expansion. [4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none"> • includes evidence that shows a clear understanding of the benefits that Pinewood might gain from expansion • clearly explains how this data provides evidence of the benefits to be gained from expansion 	4 marks
<ul style="list-style-type: none"> • includes evidence that shows an understanding of the benefits that Pinewood might gain from expansion • unclear explanation of how this data provides evidence of the benefits to be gained from expansion 	3 marks
<ul style="list-style-type: none"> • includes evidence that shows some understanding of the benefits that Pinewood might gain from expansion • limited explanation of how this data provides evidence of the benefits to be gained from expansion 	2 marks
<ul style="list-style-type: none"> • shows a limited understanding of the benefits that Pinewood might gain from expansion • no explanation of how this data provides evidence of the benefits to be gained from expansion 	1 mark

Relevant issues include

Clear understanding of the of the benefits that Pinewood might gain from expansion

This may include

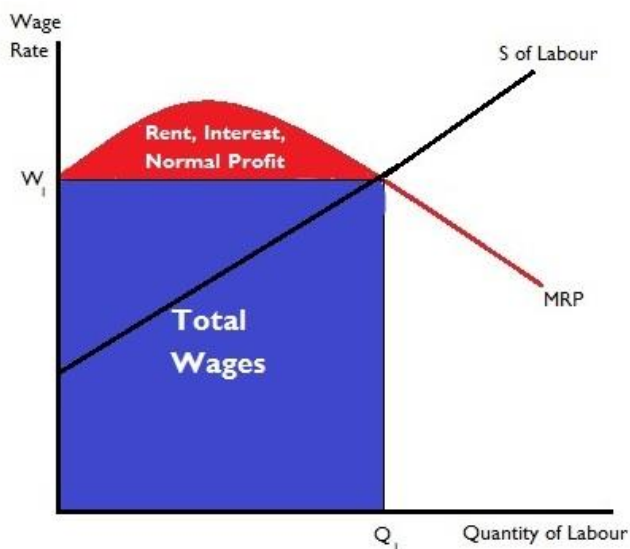
- Economies of scale – lower LRAC therefore increased profits
- Ability to better compete with other studios
- More capacity to take on more production – i.e. increased sales
- Reference to 10 more stages

MAXIMUM FOR Q6 4 MARKS

7. With reference to extract E and using a diagram to support your answer, explain the reasons why Bob Iger’s salary in 2014 was \$46.5m. [9 marks]

Relevant issues include

- Reasons for payment of \$46.5m to Bob Iger include;
 - High salary may reflect high level of marginal revenue product/revenue generated by CEO.
 - Disney may need to offer high salaries and payment packages to attract the best employees in a competitive market with a number of other high paying companies e.g. Comcast.
 - High pay may be linked to performance of share price, which has risen nearly fivefold in a little over a decade.
 - High pay may be linked to doubling of profits over the past five years.
 - His strategy to buy rival companies such as Pixar and Marvel has proved to be highly successful and profitable for Disney.
- Correct MRP diagram



MAXIMUM FOR Q7 9 MARKS

8. Using the data in the extracts and your economic knowledge, assess the likely impact on production, costs and revenue of the expansion of Walt Disney outlined in Extract D. [25 marks]

Areas for discussion include

- Economies of scale may help lower long-run average costs sufficiently to outweigh any diseconomies of scale
- Share resources and expertise e.g. Stars Wars cartoon series using Disney graphic design
- Bringing more ‘product’ (such as Pixar and Star Wars) within the Disney distribution system may boost capital productivity

- Fixed costs may rise substantially (such as the interest payments on the huge sums required to make multi-billion \$ purchases of rivals) but average and marginal costs may fall if the huge Disney network is being better utilised, or if more visitors are attracted to the Theme Parks
- Increased dominance in markets that they currently compete in should boost revenue
- Access to legacy products e.g. Lucasfilms may lack the finance to be able to reboot the Star Wars or Indian Jones stories/films
- Increased opportunities to branch out into other areas – merchandising
- In the short run there may be significant head office costs as Disney makes Pixar administration or management staff redundant; these would be one-off costs, though, compared with the long-run benefits of lower average fixed costs
- Diseconomies of scale

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

MAXIMUM FOR Q8 25 MARKS

9. Explain how monopoly firms can maintain abnormal profits.

[15 marks]

Relevant issues include

- High Barriers to entry
- Sole firm
- Patents
- Unique product
- Accurate diagram of a monopoly
- Super normal profits used to invest in R&D and maintenance of dominant position
- Use of super normal profits to fund advertising and brand development as a Barrier to entry
- Use of super normal profits to fund pricing strategies to prevent new entrants – limit pricing.

MAXIMUM FOR Q9: 15 MARKS

10. Discuss whether or not monopolies are inherently bad.

[25 marks]

Relevant issues include

- Monopolies are bad because
 - They make super normal profit and therefore reduce consumer welfare
 - They charge higher prices and produce lower quantities than PC
 - They can embark on price discrimination
 - High Barriers to entry mean they have little need to invest in new processes/methods
 - They are productively inefficient
 - They are allocatively inefficient
 - They are x-inefficient
 - They are able to drive out competition e.g. limit pricing
- Monopolies on the other hand are not inherently bad
 - They can use super normal profits to research and develop new products and better more productively efficient ways of producing a good.

- They can use super normal profits to cross-subsidise other products raising consumer welfare
- Schumpeter argued creative destruction meant that there were no permanent monopolies and they would have to invest to survive
- They can use their super normal profits to build a buffer against potential unwanted overtures from abroad, which would result in profits being repatriated out of the UK (or wherever the monopoly is based)
- Some markets can only be sustained if they are a monopoly – natural monopolies, and anything else would be unsustainable and a waste of resources through duplication.
- Some argue that competition and the requirement for firms to pay advertisers to develop their brand image is an inefficient allocation of scarce resources.

MAXIMUM FOR Q10: 25 MARKS

11. Explain how a tax would help combat the “growing menace of obesity” [15 marks]

Relevant issues include

- A tax – such as the proposed sugar tax – raises the price of the good.
- Sugar/fatty foods are a demerit good – their impact causes obesity.
- Makes non sugary/non fatty foods much appealing as their price is lower in relative terms
- Places a value on the external costs of obesity
- Negative externality diagram in consumption, possibly showing the tax internalising the externality.

MAXIMUM FOR Q11: 15 MARKS

12. Discuss whether or not it is the role of government to regulate the provision of merit and demerit goods. [25 marks]

Relevant issues include

Regulation of merit and demerit goods

- Understanding the meaning of merit and demerit goods
- Examples of merit and demerit goods
- Produces a positive or negative externality – i.e. a third party effect that the market doesn't account for, so the government must intervene
- Merit goods consumers will under consume the good. The government must correct the market failure
- Demerit goods consumers will over consumer the good. The government must correct the market failure

Not the responsibility of the government

- Consumers should be left to their own devices and to make their own decisions
- Moral Hazard effect of government intervention
- Government failure
- Consumers become too reliant on the government to make decisions on their behalf- economic paternalism (involves value judgements)

MAXIMUM FOR Q12: 25 MARKS

13. Explain how a \$100 billion a year subsidy to developing countries will help reduce the impact of climate change. [15 marks]

Relevant issues include

- Understanding of the meaning of a subsidy
- Ways a subsidy could be used
 - Installation of flood defences
 - Installation of new carbon neutral sources of power
 - Relocation of families from areas in most danger
 - Education for those in the most polluting environments
 - Subsidise diversification into secondary sector industries so that developing countries are less reliant on agriculture as main source of GDP

MAXIMUM FOR Q13: 15 MARKS

14. Discuss the options open to government to reduce the impact of climate change [25 marks]

Relevant issues include

Education
Advertising
Subsidies
Taxation
Tradable permits
Extension of property rights
Financial incentives for green technology promotion
Legislation e.g. UK ruling on catalytic converters in petrol cars

Possible evaluation points include

How much money is needed to educate people to change their behaviour?
How long will it take?
How large does the subsidy need to be?
Subsidies – is there an opportunity cost?
What is the cost of the tradable permit?
Who receives the property rights? Will both parties be happy?

MAXIMUM FOR Q14: 25 MARKS

Practice Paper Set 2: AQA Economics 7136/02
A Level: National and International Economy
MARK SCHEME

Section A

Total for this Context: 40 marks

Context 1

1 With reference to figure one, calculate the percentage change in the budget deficit from 2011 to 2015 [2 marks]

Calculation: Budget deficit in 2011 2.25% and in 2015 9%. Therefore the budget deficit has risen by

$6.75\%/2.25\% = +300\%$ (accept answers using a range of data from 2% to 2.5% for 2011 and 9% to 9.5% for 2015)

Response	Marks
For the correct answer with the % sign, and reference to rising budget deficit (may be denoted by + sign)	2 marks
For a correct answer but without the % sign and/or no reference to rising budget deficit	1 mark

MAXIMUM FOR Q1 2 MARKS

2. With reference to extract A, explain what is meant by what is meant by real wages. [4 marks]

Response:	Max
	4 marks
<ul style="list-style-type: none"> includes evidence that shows a clear understanding of what is meant by real wages clearly explains how this data explains the concept of real wages 	4 marks
<ul style="list-style-type: none"> includes evidence that shows an understanding of what is meant by real wages unclear explanation of how this data explains the concept of real wages 	3 marks
<ul style="list-style-type: none"> includes evidence that shows some understanding of what is meant by real wages limited explanation of how this data explains the concept of real wages 	2 marks
<ul style="list-style-type: none"> shows limited understanding of what is meant by real wages no explanation of how this data explains the concept of real wages 	1 mark

Relevant issues include

Clear understanding of the meaning of real wages

- Wages adjusted for inflation
- Distinct from nominal wages
- Wages expressed in terms of purchasing power

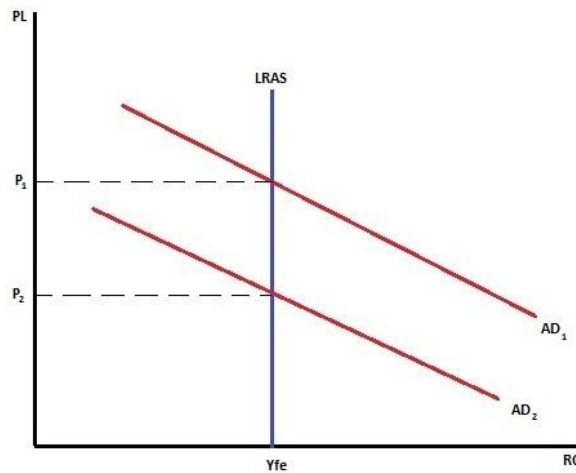
Reference to extract A

- Real wages are down 4.3% year-on-year- purchasing power of a Brazilian Real has fallen by 4.3% over the past year
- This is due to double digit inflation and negative economic growth

MAXIMUM FOR Q2 4 MARKS

3. With reference to extract A, and the aid of a diagram, explain the possible impact of a rise in the Brazilian interest rate (the Selic) on output and the price level [9 marks]

A standard AD-AS diagram is expected, which clearly illustrates the changes to price level and real output



Possible effects include

- Higher cost of borrowing for firms and consumers- reduced levels of consumption and investment
- Greater incentive for consumers to save incomes and for firms to save retained profit- reduced levels of consumption and investment
- Higher interest rate will attract hot money into Brazil, causing the Real to appreciate- stronger currency will make exports more expensive and imports cheaper- imports will increase, exports will fall, net trade (X-M) will worsen
- Stronger currency will reduce cost of imported goods, which will help dampen inflation
- Higher interest rates may increase cost of servicing government debt, reducing levels of government spending in economy
- Fall in AD will result in lower levels of real output and lower price levels in the economy

Reference to extract A

- Figure One, real interest rates rose from around 1% in 2013 to 4-5% in 2014/2015
- Benchmark Selic rate raised by three percentage points to 14.25% over last year
- Monica de Bolle believes that the Selic should be 2-3 percentage points higher

MAXIMUM FOR Q3 9 MARKS

4. With reference to the extract and your own knowledge, discuss the impact of a further increase in the level of the Brazilian fiscal deficit. [25 marks]

Areas for discussion include

- Higher cost of debt servicing
- Rising debt-to-GDP ratio
- Reduction in credit rating and higher cost of future borrowing
- Fall in business confidence and investment
- Further reductions in level of GDP/negative economic growth
- Fall in FDI and reduction in value of the Real

- Greater risk of debt default
- Risk of crowding out vs. crowding in
- Need for austerity measures in future
- Risk of Ricardian Equivalence
- Further constraint on Brazilian monetary policy

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

MAXIMUM FOR Q4 25 MARKS

5. With reference to paragraph 5 of extract B, calculate the percentage of the total global trade expected to be saved by the reduction in tariff payments [2 marks]

Calculation

Savings predicted to be \$13.8bn, on a total global trade of \$1.3tn, or \$1,300bn.

$13.8/1,300 = 0.0106$, or 1.1% (to 1 decimal place)

Response	Marks
For the correct answer with the % sign, to 1 decimal place	2 marks
For a correct answer but without the % sign and/or not to one decimal place	1 mark

MAXIMUM FOR Q5 2 MARKS

6. With reference to extract B, explain the role of the *World Trade Organisation*. [4 marks]

Response:	Max 4 marks
<ul style="list-style-type: none"> • includes evidence that shows a clear understanding of the role of the WTO • clearly explains how this data is evidence of the role played by the WTO 	4 marks
<ul style="list-style-type: none"> • includes evidence that shows an understanding of the role of the WTO • unclear explanation of how this data is evidence of the role played by the WTO 	3 marks
<ul style="list-style-type: none"> • includes evidence that shows some understanding of the role of the WTO • limited explanation of how this data is evidence of the role played by the WTO 	2 marks
<ul style="list-style-type: none"> • shows a limited understanding of the role of the WTO • no explanation of how this data is evidence of the role played by the WTO 	1 mark

Relevant issues include

Clear understanding of the role of the World Trade Organisation

This may include

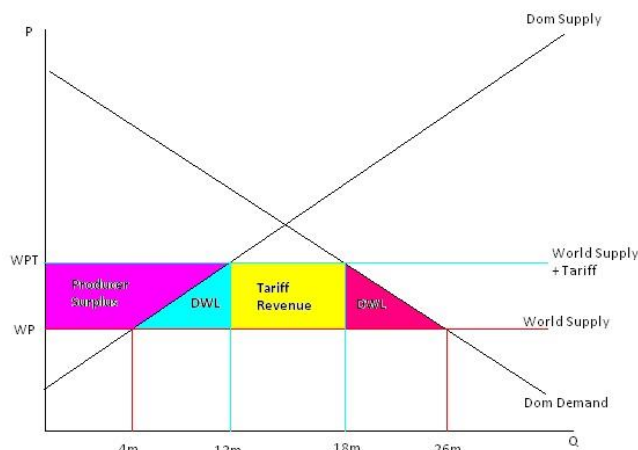
- Promotes free trade and trade liberalisation
- Encourages formation of free trade agreements
- Acts to settle trade disputes and sanction retaliatory measures
- Conduct rounds of trade negotiations e.g. Doha Round
- Review trade policy of member states
- Support developing economies through their trade promotion

Reference to extract B

- ITA-II is the first big WTO trade deal since the original ITA.
- Removing tariffs will open up new markets
- Agreed to eliminate import tariffs on 201 new electronics products

7. With reference to extract B and the aid of a diagram explain how the reduction in tariffs could promote economic growth. [9 marks]

A standard tariff or free trade diagram is expected, which clearly illustrates the effect of a reduction in the level of tariffs. In the diagram below the movement from WPT to WP will cause the elimination of the producer surplus, tax revenue and deadweight welfare loss.



Relevant issues include

- Increasing free trade will result in higher volume of exports, leading to higher AD
- Increase in derived demand for labour resulting from higher trade volumes
- Lower prices for consumers may result in higher levels of general consumption
- Extra tax revenue gained from successful export businesses allows higher government spending
- Lower cost of imports may reduce inflationary pressures, stimulating economic growth
- Increase in competition may promote greater efficiency and productivity gains

MAXIMUM FOR Q7 9 MARKS

8. Evaluate the policies available to a government like Australia to combat their increasing trade deficit. [25 marks]

Areas for discussion include

- Use of contractionary fiscal policy to reduce general expenditure levels
- Devaluation of the exchange rate to artificially increase competitiveness
- Use of protectionist measures
- Use of supply side policies to increase underlying competitiveness e.g. tax breaks on R+D
- Diversification of industries to reduce reliance on commodity prices
- Increase in number of free trade agreements to promote exports
- Time lags associated with the various supply side policies
- Prioritisation of each policy
- J Curve and Marshall Lerner condition
- The wider impacts of contractionary fiscal policy
- Risk of retaliation from trade partners, sanctioned by WTO
- Potential for inflation with weaker currency, reducing price competitiveness of goods

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

9. Explain the cost of unemployment.

[15 marks]

Relevant issues include

- Lower levels of consumption and a fall in AD
- Higher spending on welfare payments and benefits, representing an opportunity cost to government expenditure
- Increase in negative output gap
- Lower tax receipts from income and expenditure taxes
- Greater pressure on public services
- Risk of hysteresis and falling productive capacity of the economy
- Reduction in economic confidence and fall in value of the multiplier
- Wider social problems e.g. crime, suicide

MAXIMUM FOR Q9: 15 MARKS

10. Evaluate the policies that the UK government and firms could employ to improve productivity in the UK.

[25 marks]

Relevant issues include

Government policies

- Increase spending on education/training
- Lower corporation tax to promote spending on investment
- Tax breaks on R+D spending
- Creation of Special Economic Zones
- Increase national minimum wage/national living wage to increase labour motivation

Firm policies

- Increased spending on training programmes for employees
- Increased investment spending on capital goods
- Financial incentives for employees e.g. performance related pay
- R+D into efficiency of production process

MAXIMUM FOR Q10: 25 MARKS

11. Explain the impact of falling oil prices on the economies of exporting economies like Saudi Arabia.

[15 marks]

Relevant issues include

- Falling value of exports and falling AD
- Lower profits for oil firms, resulting in lower levels of investment
- Lower incomes for employees in the industry, resulting in lower levels of consumption
- Rising unemployment in oil industry
- Falling tax receipts for government and rising budget deficit
- Pressure on economy to diversify
- Reduction in current account surplus
- Reduction in foreign currency reserves as the central bank maintains the currency value.

MAXIMUM FOR Q11: 15 MARKS

12. Discuss the impact of falling oil prices on oil importing economies like the UK. [25 marks]

Relevant issues include

- Reduction in value of imports, resulting in higher level of AD
- Downward pressure on inflation
- Lower costs of production for firms, resulting in higher levels of output
- Improvement in current account
- Higher rates of economic growth
- Higher profits for firms due to lower costs, resulting in higher levels of investment
- Reduced spending on green technology
- Lower cost of motoring may result in higher level of external costs
- Effects depend on how much oil prices have fallen
- Effect depends on how long oil prices remain low for
- Effects depend on whether value of £ has changed against the \$
- Unemployment in oil related industries – e.g. North Sea
- Lower profits for major UK oil companies – Shell and BP and therefore lower dividends contributing to pension funds
- Lower demand for engineering and oil exploration equipment e.g. Rolls Royce Marine division

MAXIMUM FOR Q12: 25 MARKS

13. Explain the impact that increasing house prices might have on the price and output level of the UK economy. [15 marks]

Relevant issues include

- Positive wealth effect and higher levels of consumption
- Rising house prices may result in higher amount of stamp duty received by government, allowing for higher government spending
- Increased incentive for new house building, resulting in higher derived demand for labour
- Higher savings by first-time buyers trying to get on the housing ladder and needing a larger initial deposit
- May result in higher degree of wealth inequality in an economy
- May result in greater issues of geographical mobility of labour

MAXIMUM FOR Q13: 15 MARKS

14. Evaluate the impact that rising interest rates might have on the UK economy. [25 marks]

Relevant issues include

- Higher costs of borrowing for firms and consumers, resulting in lower investment and consumption
- Greater incentive to save income and retained profit
- Higher cost of mortgages may result in falling demand for houses, resulting in falling house prices
- Increase in hot money flows, resulting in stronger currency and worsening of net trade
- Higher cost of debt servicing
- Rising interest rates may signal an attempt to lower rate of inflation, reducing inflation expectations
- Increasing the incentive to save will reduce the value of the multiplier
- Asymmetric effect on savers and borrowers

Possible evaluation points include

- Effects depend on size of interest rate change
- Time lags in effect of changes
- Depends on whether banks pass on changes in full or if LIBOR rate varies for any reason
- Extent of hot money flows depend on relative interest rates
- Effects depend on wider state of the economy
- Higher interest rates may conflict with expansionary monetary policy

MAXIMUM FOR Q14: 25 MARKS

Practice Paper Set 2: AQA Economics 7136/03

A Level: Economic Principles and Issues

MARK SCHEME

Key List

1. C
2. D
3. B
4. B
5. A
6. D
7. D – see note below for explanation
8. B
9. D
10. B
11. C
12. D
13. D
14. B
15. A

Note for teachers: Q7 candidates may find this question quite demanding. A is correct because as the maximum price is lifted the quantity demanded will fall, in other words the excess demand disappears as the price rises (thus C is correct) to the market price for oil, at the same time though the effective demand for oil increases, and so the external costs associated with oil consumption increase (thus B is also correct).

16. C
17. D
18. D
19. C
20. C
21. B
22. A
23. C
24. C
25. C
26. B
27. C
28. B
29. C
30. A

31.

Section B

INVESTIGATION

Total for this investigation: 50 marks

31 Explain why ASOS has been so successful in recent years.

[10]

Level of response	Response	Max 10 marks
3	A good response that: <ul style="list-style-type: none">• uses the data to explain why ASOS is being successful• is well organised and includes at least two relevant, well-developed explanations• makes effective use of the data in Extract D for both comparisons.	8–10 marks
2	A reasonable response that: <ul style="list-style-type: none">• is likely to explain why ASOS is being successful, but is unlikely to consider the data in any detailed way• is fairly well organised and includes at least two relevant and fairly well-developed explanations• includes some satisfactory use of the data in Extract D	4–7 marks
1	A weak response that: <ul style="list-style-type: none">• is very brief and/or lacks coherence• might try to compare some of the explanations provided in the data• contains very limited or poor use of the data in Extract D	1–3 marks

When seeking an explanation for the success at ASOS, candidates must make use of the data provided, but may also use their own knowledge of the British clothing industry.

Relevant issues include:

- Speedy delivery – data refers to next day delivery cut off of midnight
- Currency hedging – data refers to efforts to reduce the impact of currency fluctuations
- Website and mobile app made easier to use
- Products attractive to young customer base
- Low cost manufacturing process – much of the output is outsourced
- Highly developed distribution network
- Operating in 200 countries – therefore less exposed to the UK market
- No bricks and mortar presence, therefore reduced costs of operation
- Introduction of a loyalty card
- Second most visited fashion website
- Social media presence to show off new ranges and special offers.

MAXIMUM MARKS FOR QUESTION 31: 10 MARKS

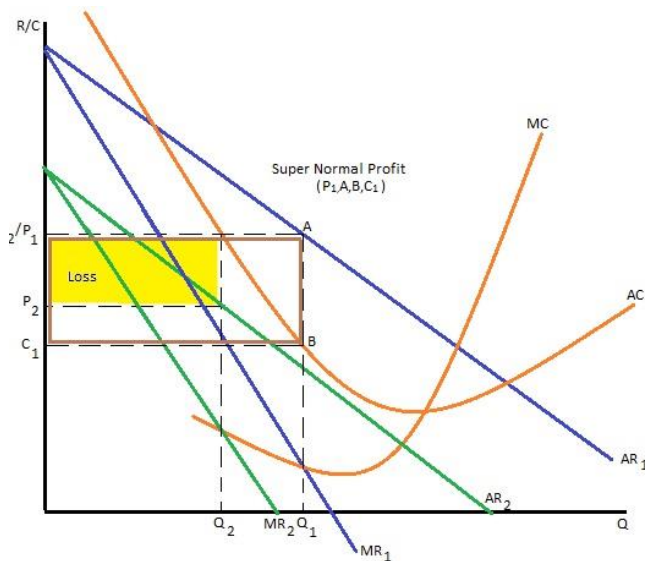
32 Explain, using a diagram, why BHS has made losses in recent years.

[15]

Level of response	Response	Max 15 marks
3	<p>A good response provides an answer that:</p> <ul style="list-style-type: none"> • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning. 	11–15 marks
2	<p>A reasonable response provides an answer that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places. 	6–10 marks
1	<p>A weak response provides an answer that:</p> <ul style="list-style-type: none"> • has one or more relevant issues identified • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles and/or data to the question • might have some limited analysis but it may lack focus and/or become confused. 	1–5 marks

Relevant issues include:

- Correct diagram, showing a decrease in demand (or increased costs)
- Loss of demand due to
 - Increased competition on the High Street – reference to Primark and M&S
 - Increased competition online – reference to ASOS
 - Clothing range becoming less popular and fashionable
- Increased costs of rents



MAXIMUM FOR QUESTION 32: 15 MARKS

33 Evaluate the strategies available to BHS which would enable them to make a profit.

[25]

Relevant issues

- Pricing strategies
 - Sales Maximisation ($AC=AR$)
 - Revenue Maximisation ($MR=0$)
 - Limit Pricing
 - Predatory Pricing
 - Price Discrimination (charge different prices in stores in different locations, different prices in store than online)
- Non-price strategies
 - Increased advertising
 - Improved quality of output
 - Increased range of desired products
 - Development into non-core products – e.g. food items
 - Cut costs –
 - Cut rents paid to stores
 - Cut supplier costs by using buyer power to negotiate better deals
 - Outsource production
 - Cut staff benefits
 - Develop an online presence
 - Collusion
- Possible evaluation
 - Pricing strategies are limited as they may cause a price war.
 - Pricing strategies which will cause the losses to increase will threaten the business and cannot be sustained long term.
 - Some pricing strategies may be illegal if they are geared to reducing competition in the market.
 - Does BHS have the funds to advertise their products?
 - Do they need to develop a new range of products before they can advertise them?
 - Do BHS have the funds to increase the range of products and quality of output?
 - How long will it take to develop a new range of clothing items? Can they sustain losses in the meantime?
 - Will non-core items cause BHS to get distracted from improving the core offering?
 - Cutting costs –
 - On employee benefits may mean that morale falls even further and the quality of service declines
 - Outsourcing production may mean that quality of production drops
 - Does BHS have the monopsony power to negotiate better deals?
 - Is it too late to develop an on-line presence? ASOS has already dominated the market?
 - The costs of developing an on-line presence and distribution network may be prohibitive.
 - Would any other firm wish to take on BHS and their liabilities?
 - Collusion – difficult in a competitive market and is illegal

An answer that does not include any evaluation or a supported recommendation must not be awarded more than 13 marks.

MAXIMUM FOR QUESTION 33: 25 MARKS; Total for this Investigation: 50 marks