

## AS Level in Economics

### H060/01 Microeconomics

Sample Question Paper

Version 2

## Date – Morning/Afternoon

Time allowed: 1 hour 30 minutes



**You may use:**

- a scientific or graphical calculator



First name										
Last name										
Centre number						Candidate number				

### INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Sections A and B: Answer **all** the questions in each of these sections.
- Section C: Answer **one** question in this section.
- Write your answer to each question in the space provided.
- Additional paper may be used if required but you must clearly show your candidate number, centre number and question number(s).
- Do **not** write in the bar codes.

### INFORMATION

- The total mark for this paper is **60**.
- The marks for each question are shown in brackets [ ].
- Quality of extended responses will be assessed in questions marked with an asterisk (\*).
- This document consists of **20** pages.

**Section A**

Answer **all** the questions in this section.

1 Which of the following describes a free good?

- A** A free good is one given away to consumers to promote the sale of other goods
- B** A free good is one provided free of charge to consumers by the government
- C** A free good is one that gives zero satisfaction to consumers
- D** A free good is one that has zero opportunity cost

Your answer

[1]

2 Which of the following is a consequence of using money rather than a barter system?

- A** It decreases specialisation
- B** It decreases the ease of borrowing
- C** It decreases the need for a double coincidence of wants
- D** It decreases trade

Your answer

[1]

3 Which of the following, according to traditional economic theory, is it assumed that a firm will seek to maximise?

- A** Customer satisfaction
- B** Economic welfare
- C** Productive efficiency
- D** Profit

Your answer

[1]

4 Which of the following is a feature of a market economy?

- A** Competition ensures product differentiation
- B** Consumer preferences determine the allocation of resources
- C** Producers aim to maximise positive externalities
- D** Resources are allocated through the planning mechanism

Your answer

[1]

5 An economy is allocatively efficient when:

- A the marginal private benefit of consumption equals the marginal social benefit
- B the output produced maximises total consumer welfare
- C there is neither unemployment nor underemployment of factors of production
- D total consumer surplus is exactly equal to total producer surplus

Your answer

[1]

6 Which of the following is a public good?

- A Defence
- B Electricity supply
- C Health services
- D University education

Your answer

[1]

7 It has been estimated that the price elasticity of supply (PES) of flood defences is 0.25 in the short run and 1.25 in the long run. Which of the following combinations of statements is correct?

	Short run PES of flood defences	Long run PES of flood defences
A	Elastic	Elastic
B	Elastic	Inelastic
C	Inelastic	Elastic
D	Inelastic	Inelastic

Your answer

[1]

8 Which of the following statements is a normative statement?

- A An increase in the indirect tax on cigarettes will increase the price of cigarettes
- B People aged under 21 years old are more likely to smoke than people over 30 years old
- C People should not be allowed to smoke in private cars
- D Smoking can damage your health

Your answer

[1]

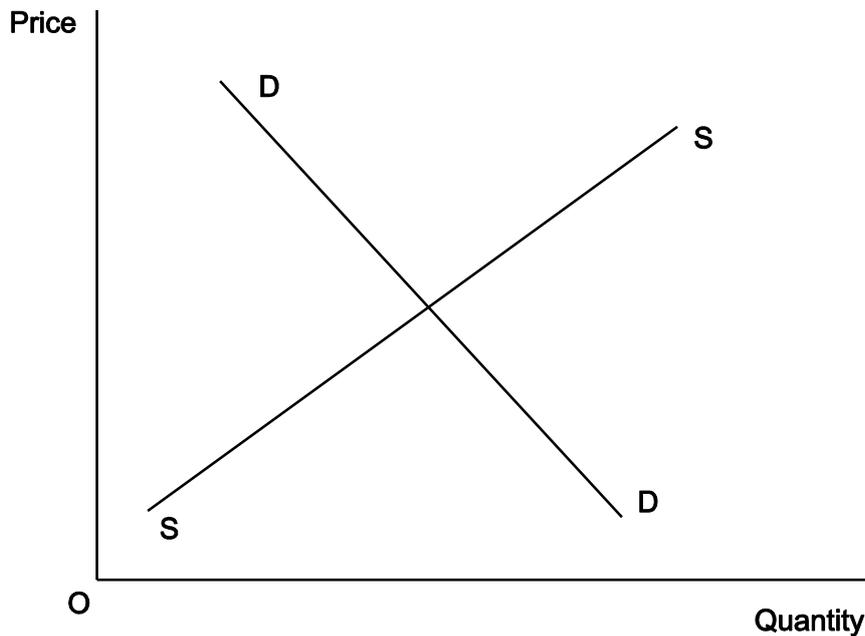
9 Which of the following is an external cost of production?

- A The cost of a public relations campaign in support of a new 'eco-friendly' factory
- B The cost of installing environmentally-friendly equipment in a new factory
- C The cost of traffic congestion resulting from opening a new factory
- D The cost of transporting products from a new factory to international retail outlets

Your answer

[1]

10 The diagram below shows the market for a product. The current demand curve is D and the current supply curve is S. Consumers are under-estimating the benefits arising from the consumption of the product.



Which of the following changes in demand, supply and price would reduce this under-consumption?

	<b>Demand</b>	<b>Supply</b>	<b>Price</b>
<b>A</b>	Extension	Increase	Decrease
<b>B</b>	Increase	Contraction	Increase
<b>C</b>	Decrease	Contraction	Increase
<b>D</b>	Contraction	Increase	Decrease

Your answer

[1]

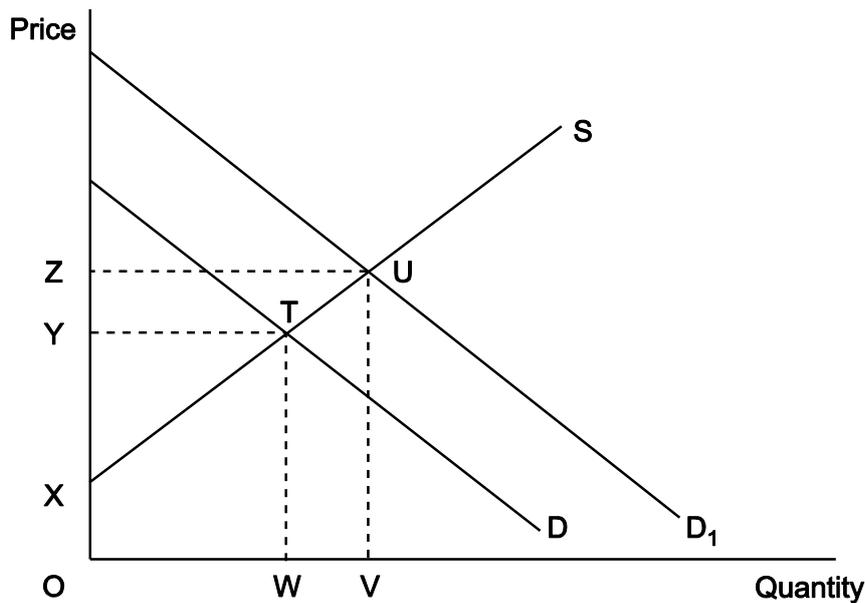
- 11 Which of the following combinations of causes and consequences in the market for good X is correct?

	Cause	Consequence
<b>A</b>	A government subsidy is given to firms producing good X	There is a movement down the supply curve for good X
<b>B</b>	The price of good X decreases	The demand curve for good X shifts to the right
<b>C</b>	The price of a substitute for good X increases	The demand curve for good X shifts to the left
<b>D</b>	The wages paid to workers producing good X fall	The supply curve for good X shifts to the right

Your answer

[1]

- 12 In the diagram below demand increases from D to D<sub>1</sub>. Which area represents the increase in producer surplus?

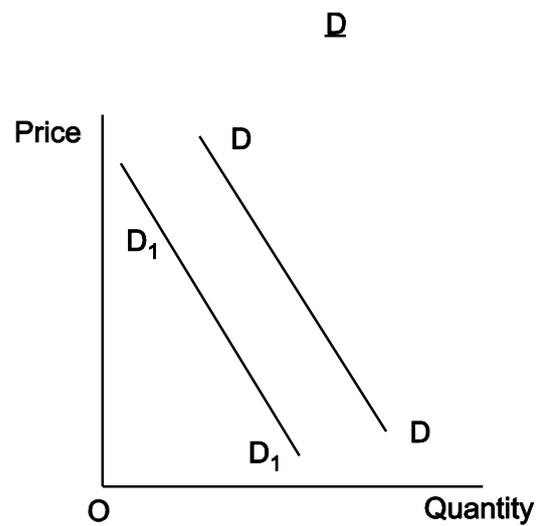
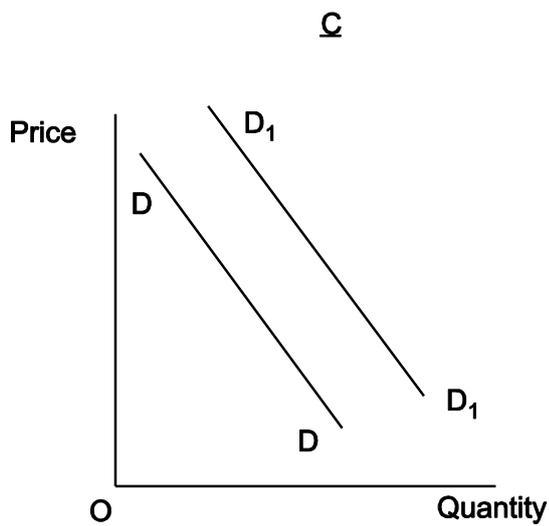
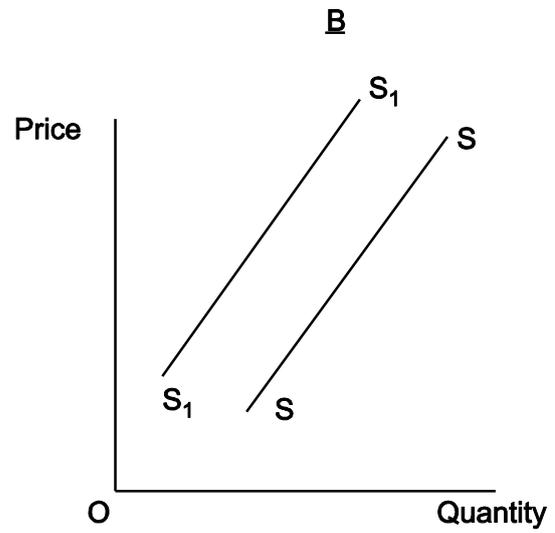
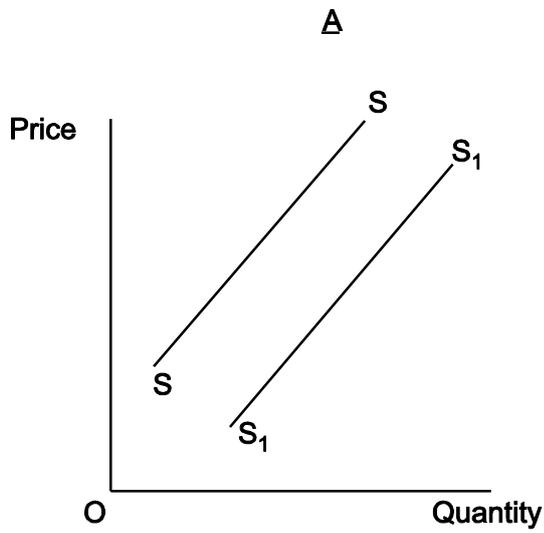


- A** XYT  
**B** XZU  
**C** WTUV  
**D** YZUT

Your answer

[1]

- 13 A company operates bus and tram services in a city. If the board of directors has decided to increase the price of bus fares and leave tram fares unchanged, which of the following diagrams (labelled **A**, **B**, **C** and **D**) would show the effect on the market for tram travel in the city?



**A**  
**B**  
**C**  
**D**

Your answer

[1]

14 The information below shows the total cost of production for a firm at different levels of output.

<b>Total output</b>	0	100	200	300	400	500
<b>Total cost of production</b>	£17 500	£28 700	£37 500	£45 100	£53 800	£59 200

What is the average variable cost when 400 units are produced?

- A ~~£43.75~~
- B ~~£87.00~~
- C ~~£90.75~~
- D ~~£134.50~~

Your answer

[1]

15 If a government decides to provide health care free at the point of delivery, then:

- A the demand for health care will be perfectly elastic
- B health care will become non-rival
- C some form of rationing will have to be used in the allocation of health care
- D there will be no opportunity cost involved in the supply of health care

Your answer

[1]

**Section B**

Answer **all** the questions in this section.

**Food for Thought – Changing Patterns of Food Production and Consumption**

Like many economically developed countries, Denmark is facing a growing problem with obesity. A study conducted by the Danish government in 2013 showed that almost half of the Danish population was overweight, with one in seven classified as obese. In spite of this, a tax designed to tackle rising obesity levels lasted little over a year.

5 In 2011 the Danish government introduced a tax on all items with a saturated fat content in excess of 2.3%. This tax was equal to 16 Danish kroner for every kilogram of saturated fat present in the food item. By November 2012, the government had announced an end to this policy and abandoned proposals for an additional tax on sugar. The reason given for this was that a policy designed to improve its citizens' health had increased food prices and reduced employment in the Danish food industry. The tax was reported to have targeted the Danes' perceived love of butter; however, data from Denmark showed that even before the introduction of the tax, the average Dane was consuming little more than a third of the butter they had in 1990. Meanwhile in the United States of America demand for butter had increased by 65% since 2000.

15 It is not only the market for butter that highlights differences between changing patterns of consumption in different countries. While Americans are now demanding less meat per person, in Japan red meat has overtaken fish as the major source of protein in the national diet.

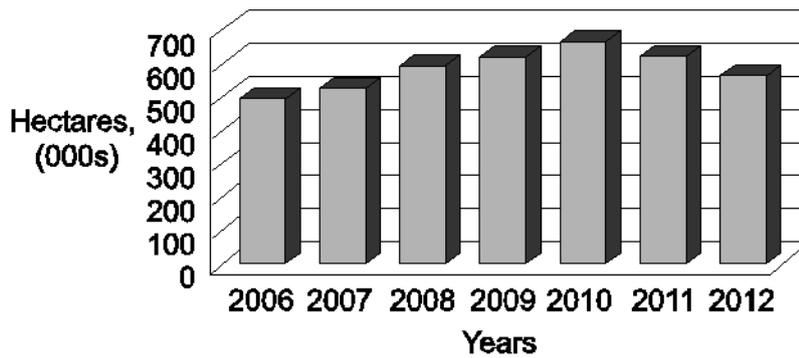
20 Fig.1 shows that sales of organic food fell in the UK between 2008 and 2011. In response, UK farmers have been using less of their land to supply it (see Fig. 2). On the other hand demand continued to rise sharply in European markets. Organic food is produced in a way that is environmentally friendly, with artificial fertilisers being banned and pesticides being heavily restricted. In general, this method has a lower crop yield and is less productively efficient than traditional farming.

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**Fig. 1 Sales of organic food and average earnings in the UK, 2008 to 2011**

Year	2008	2011
U.K. Sales of Organic Food (£m)	1986	1500
Index of Nominal Average Earnings in the U.K. (2008=100)	100	98.0

**Fig. 2 Hectares used for organic farming in the UK, 2006 to 2012**



16 (a) State **one** factor of production used in the production of organic food.

.....[1]

(b) Other than changes in the price of butter, explain **two** possible factors which would have caused the demand for butter to increase in the USA (line 13).

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2.....

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.....[4]

(c) (i) State the formula used to calculate income elasticity of demand for a product.

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.....[2]

(c) (ii) Using **Fig. 1**, calculate the income elasticity of demand for organic food in the UK. Give your answer correct to two decimal places.

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.....[2]

(d) (i) Explain what is meant by the term 'sustainability'.

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