

## A Level in Economics H460/03 Themes in economics

Sample Question Paper

Version 2.2

### Date – Morning/Afternoon

Time allowed: 2 hours



**You may use:**

- a scientific or graphical calculator



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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.
- Answer **all** the questions.
- 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 **80**.
- 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 **24** pages.

## Section A

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

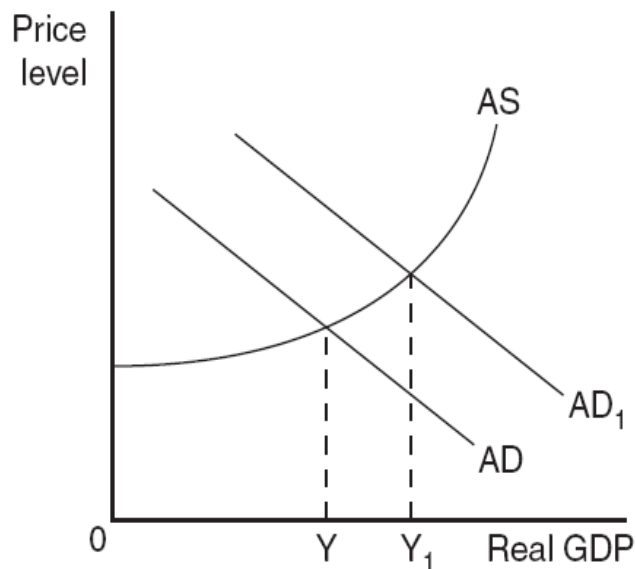
~~1~~ The dependency ratio is the number of people:

- ~~A~~ of working age in comparison to the total number of people in the labour force  
~~B~~ who are currently unemployed in comparison to the total number of people in the labour force  
~~C~~ who are economically inactive in comparison to the total number of people in the labour force  
~~D~~ who are unemployed in developing countries in comparison to the total number of people in the labour force in developed countries

Your answer

[1]

2 In the diagram below, which of the following would have caused the rise in real GDP from  $Y$  to  $Y_1$ ?



- A A decrease in the average propensity to consume  
 B A decrease in the marginal propensity to save  
 C An increase in the marginal propensity to import  
 D An increase in the marginal rate of tax

Your answer

[1]

3 Which of the following is a policy measure available to a central bank?

- A Setting the basic rate of income tax
- B Setting the budget for government spending
- C Setting the national minimum wage
- D Setting the short term interest rate

Your answer

[1]

4 Which of the following would cause the demand curve for a product to shift to the right?

- A A fall in the price of the product
- B An increase in the demand for a complementary good
- C A decrease in the size of the country's population
- D An intensive advertising campaign for a substitute product

Your answer

[1]

5 Which statement explains the term 'productive efficiency'?

- A The level of output at which average cost is at its lowest
- B The level of output at which marginal cost is at its lowest
- C The level of output at which marginal cost is equal to average revenue
- D The level of output at which marginal cost is equal to marginal revenue

Your answer

[1]

6 A country has a deficit in the current account of its balance of payments. Its government devalues its currency.

Which combination of price elasticities of demand and supply would enable the devaluation to reduce the deficit?

	PED for exports	PED for imports
A	-0.4	-0.2
B	-0.5	-0.4
C	-0.4	-0.3
D	-1.3	0.0

Your answer

[1]

- 7 According to the Harrod–Domar model of growth, which of the following combinations is likely to result in the fastest rate of economic growth?

	Savings ratio	Capital–output ratio
<b>A</b>	High	High
<b>B</b>	High	Low
<b>C</b>	Low	High
<b>D</b>	Low	Low

Your answer

[1]

- 8 How can an economy that is currently employing all its resources increase its output?

- A** Improving the state of technology
- B** Increasing consumption by lowering prices
- C** Increasing the velocity of circulation of money
- D** Redistributing income between factors of production

Your answer

[1]

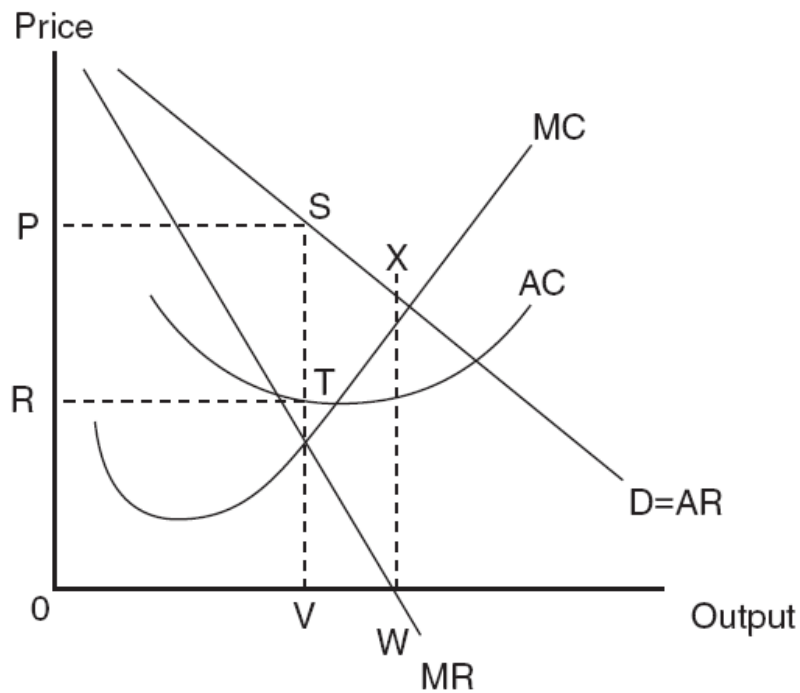
- 9 Which of the following defines a situation where positive externalities of consumption exist?

- A** Marginal social benefit is greater than marginal private benefit
- B** Marginal social cost is greater than marginal private cost
- C** Marginal private benefit is greater than marginal social benefit
- D** Marginal private cost is greater than marginal social cost

Your answer

[1]

10 The diagram below represents a firm operating in monopolistic competition.



Which of the following statements is correct?

- A The firm achieves productive efficiency
- B The firm earns total revenue represented by the area RPST
- C The firm is operating on the elastic section of its demand curve
- D The firm's supernormal profit is represented by the area 0RTV

Your answer

[1]

11 The rate of economic growth in China has led to more factories and infrastructure being built on land that could have been used for houses.

The demand for land in China can best be described as:

- A complementary
- B composite
- C derived
- D joint

Your answer

[1]

- 12 In order to increase production in the short run a firm that produces toys adds units of labour to a fixed supply of capital equipment.

The table below shows the relationship between increasing units of labour and the total output of toys.

<b>Units of labour</b>	1	2	3	4	5	6	7	8	9	10
<b>Output of toys</b>	12	27	46	67	88	107	122	132	136	135

At what point does the firm first begin to experience diminishing returns?

- A When the 4th unit of labour is employed
- B When the 5th unit of labour is employed
- C When the 6th unit of labour is employed
- D When the 10th unit of labour is employed

Your answer

[1]

- 13 Which of the following is **not** a factor affecting the elasticity of supply for labour?

- A The availability of labour in other industries
- B The extent of unemployment
- C The labour cost as a proportion of total costs
- D The time period

Your answer

[1]

- 14 A business has a divorce between ownership and control and its management is aware of the need to meet the demand of shareholders.

Which of the following business objectives is the most likely to be adopted by its management?

- A Corporate social responsibility
- B Profit maximisation
- C Profit satisficing
- D Utility maximisation

Your answer

[1]

15 An economy has the following leakages:

- Marginal propensity to save = 0.1
- Marginal rate of taxation = 0.2
- Marginal propensity to import = 0.2

Its government wants to raise its GDP from \$300bn to \$450bn. By how much should it increase its spending in order to achieve its objective?

- A \$15bn
- B \$60bn
- C \$75bn
- D \$150bn

Your answer

[1]

16 Which of the following is the fundamental problem facing all economies?

- A The danger of deflation
- B Frictional unemployment
- C What, how and for whom to produce
- D The unequal distribution of income

Your answer

[1]

17 5000 units of a product are supplied at a price of £40. The price elasticity of supply of the product is 0.8. If the price rises to £50, what would be the increase in supply?

- A 400
- B 800
- C 1000
- D 1250

Your answer

[1]

18 Which of the following explains why the government provides public goods?

- A They are subject to information failure
- B There are missing markets in these goods
- C They tend to be over-produced
- D Their production can increase employment

Your answer

[1]

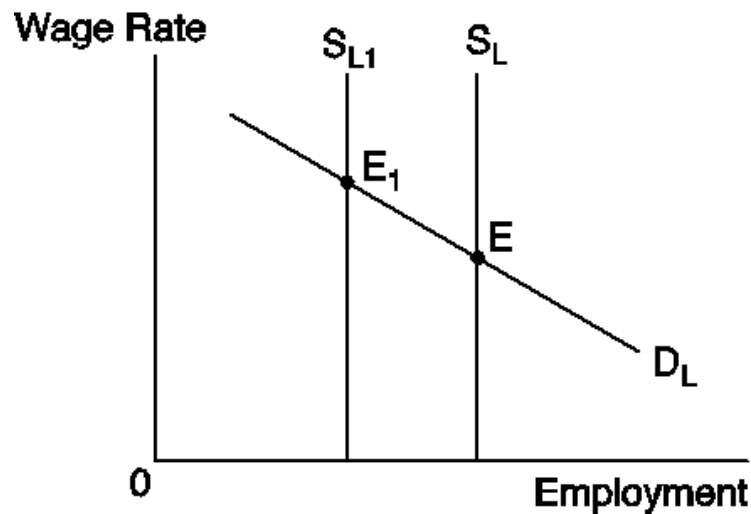
19 Which of the following is a characteristic of a customs union but **not** of a free trade area?

- A A common currency between the member states
- B A common external tariff
- C Fixed exchange rates
- D The absence of tariff barriers between member states

Your answer

[1]

20 The following diagram represents the labour market conditions in a particular industry.



Which of the following combinations of statements is correct if the supply of labour shifted from  $S_L$  to  $S_{L1}$  resulting in a change in the labour market equilibrium from  $E$  to  $E_1$ ?

	Statement 1	Statement 2
A	Economic rent is unchanged	Labour will be supplied whatever the wage rate
B	Economic rent is unchanged	There would be no demand for labour at a wage rate above the equilibrium
C	Transfer earnings are unchanged	Labour will be supplied whatever the wage rate
D	Transfer earnings are unchanged	There would be no demand for labour at a wage rate above the equilibrium

Your answer

[1]



- 21** A British manufacturer of luxury cars sets its prices in pounds sterling (£) and sells 90 cars per week in the USA when the price is £200 000 per car and the exchange rate is £1 = \$2. The price elasticity of demand for its cars in the USA is unitary.

Assuming an unchanged sterling price, what is the maximum number of cars it can sell per week if the exchange rate changes to £1 = \$1.50?

- A** 60
- B** 90
- C** 120
- D** 150

Your answer

[1]

- 22** An employer pays all his workers the same wage. At present he employs 50 workers at £20.00 per day. He has to increase the wage by 20p per day to attract an extra worker.

What is the marginal cost of the extra worker to the employer?

- A** 20p
- B** £20.20
- C** £30.20
- D** £1030.20

Your answer

[1]

- 23** Which of the following is a characteristic of globalisation?

- A** A reduction in the harmonisation of economic policies
- B** A reduction in the impact of external shocks on national economies
- C** A reduction in the power of international organisations such as the IMF
- D** A reduction in the segmentation of markets between national economies

Your answer

[1]

24 The table below shows selected economic data on four countries in 2012.

Country	GDP (US\$bn PPP)	Exports (US\$bn)	Imports (US\$bn)	Stock of FDI at home (US\$bn)	Stock of FDI abroad (US\$bn)
Belgium	416	305	312	1160	1185
Denmark	209	106	98	148	139
Germany	3228	1460	1250	1320	1830
USA	16 240	1562	2264	2670	4460

Which country was the most integrated into the global economy?

- A Belgium
- B Denmark
- C Germany
- D USA

Your answer

[1]

25 A country is faced with a surplus in the current account of its balance of payments and unemployment.

Which of the following would reduce both of these problems?

- A A decrease in its government spending on education
- B A decrease in its interest rates
- C An increase in its rate of corporation tax
- D An increase in the value of its currency

Your answer

[1]

26 Which of the following is a reason why economists criticise the traditional Phillips Curve as a tool for explaining the relationship between macroeconomic variables?

- A Individuals adapt their expectations of inflation as the price level changes.
- B Individuals suffer from money illusion so believe prices are stable when they are not.
- C It assumes that real wages rather than money wages are an indicator of inflation.
- D There is a trade-off between inflation and unemployment in the short run.

Your answer

[1]

27 Which of the following could be the numerical value of XED for two products which are weak substitutes for each other?

- A -2
- B -0.2
- C +0.2
- D +2

Your answer

[1]

28 The information in the table below shows the price index in the years 2008 and 2014 in four countries.

In which country was the inflation rate highest between 2008 and 2014?

Country	2008 price index (2005=100)	2014 price index (2005=100)
A	104	153
B	112	230
C	105	210
D	140	260

Your answer

[1]

~~29 The money supply, the velocity of circulation, the price level and the volume of transactions all have a base year index (year 1) of 100. In year 2 the index numbers were:~~

- ~~• the money supply 104~~
- ~~• the velocity of circulation 100~~
- ~~• the volume of transactions 102.~~

~~To the nearest whole number, what was the price level index in year 2?~~

- ~~A 96~~
- ~~B 98~~
- ~~C 102~~
- ~~D 106~~

~~Your answer~~

~~[4]~~

30 Which of the following factors has contributed to globalisation?

- A Higher trade barriers
- B Improvements in communications
- C More restrictions on capital movements
- D Tighter immigration controls

Your answer

[1]

**Section B**

Read the following extracts and answer **all** questions which follow.

**Extract 1****The UK is under water**

5 In the winter of 2013-2014 England saw some of the worst storms since records began. More than five million people were put at risk from flooding. Many of these were hit directly as their homes were flooded. Some businesses were also flooded and suffered a loss of customers and disruption to supplies. In the south of the country, in particular, infrastructure was badly disabled. Many business owners feared for their livelihoods. Only time will tell what the negative multiplier effect has been on those regions.

10 The Environment Agency was heavily criticised for its handling of the floods and much debate was had around the lack of government intervention; in particular, the merits of dredging rivers. However, in order to receive funding from the government, the Environment Agency has to demonstrate that a flood defence project will match a Cost Benefit Ratio of 1:8, i.e. for every £1 spent there needs to be at least an £8 return in avoided flood damage. In a Cost Benefit Analysis of flood defences, a business failure would be considered an economic cost, whereas prevention of business failure an economic benefit. Other considerations are the loss of  
15 agricultural output and supply-side consequences: health issues and social cohesion, as well as a loss of productivity.

20 It was claimed that there would have to be an annual £20m rise in the government's £600m flood defence budget, as well as any inflationary increase, just to maintain the UK's present level of protection. The government would need to consider the opportunity cost of this decision because of the trade-off between environmental protection expenditure and other forms of government spending.

25 Perhaps this type of extreme weather should not be a surprise to economic agents. In 2006 Lord Nicholas Stern from the London School of Economics published a report on the economics of climate change. This urged policy-makers to realise the negative externalities resulting from their patterns of production and consumption in order to reduce emissions. He considered that the total cost and risk of climate change could amount to the equivalent of losing at least 5% of global GDP each year  
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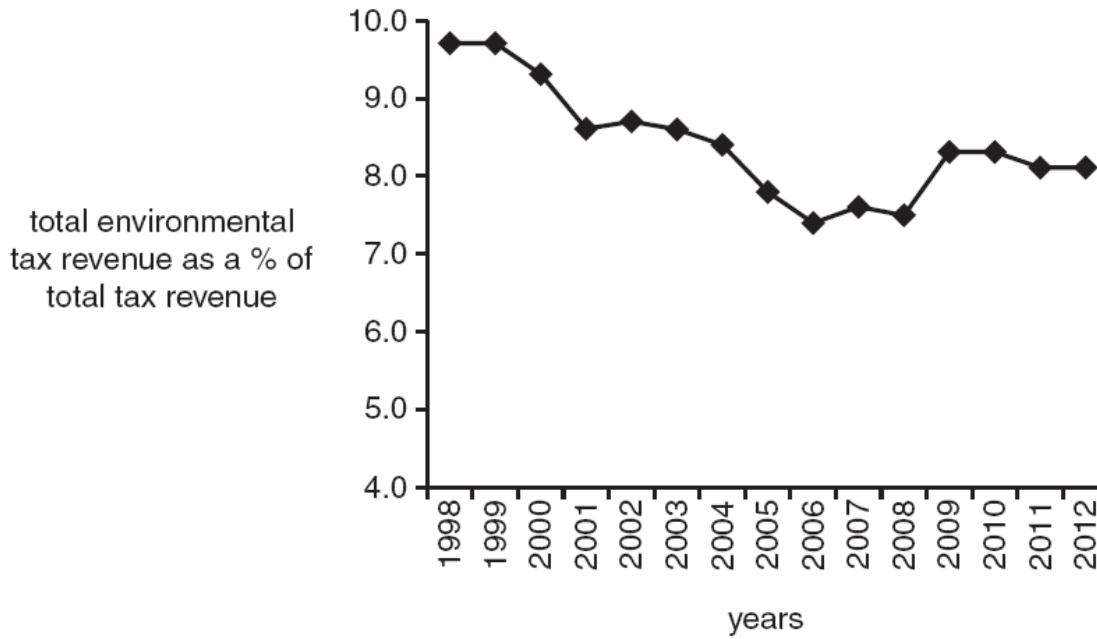
The storms and flooding of 2013/14 were unprecedented; costs to repair the damage were estimated at the time to be in the region of £1bn. However, Mark Carney, the Governor of the Bank of England, expressed his opinion that there would be a 'dent' in economic activity but it would not harm the overall recovery that the UK had started to experience during 2013.  
35

40 Some economists argue that to truly address this market failure the government response needs to be wider than just flood prevention. It should consider the environmental damage that UK economic activity causes and how to limit such damage. The government currently uses a range of environmental taxes but their success in reducing the negative externalities of both consumption and production has been questioned. Could further policies such as environmental standards be more effective at correcting market failure and the subsequent impact on economic efficiency for both micro and macroeconomic performance?

**Extract 2****Environmental taxation in the UK**

Fig. 2.1 shows UK government revenue from environmental taxation.

**Fig. 2.1 – Environmental taxation as a percentage of UK government tax revenue, 1998–2012**



### Extract 3

#### How will we manage the rising demands for water?

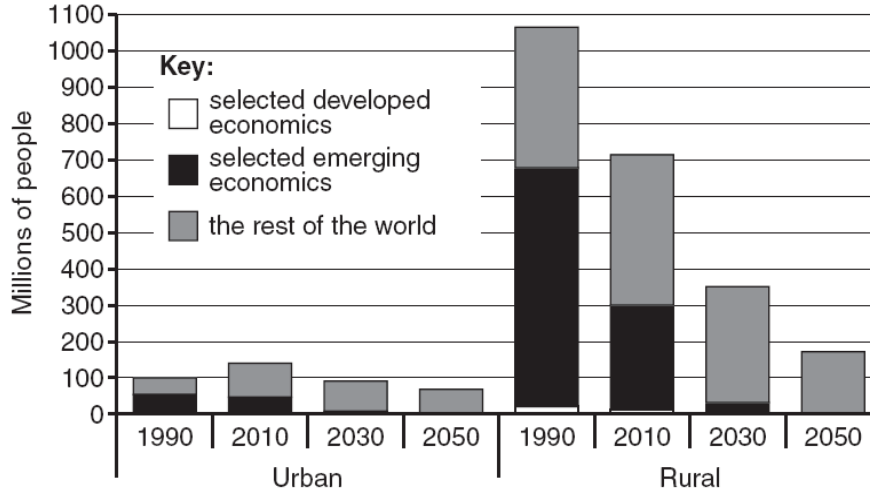
While the UK experienced flooding, the Organisation of Economic Cooperation and Development (OECD) released a report which warned of the long term problems that will occur for the global economy due to a lack of water. The OECD Secretary-General warned that, 'Without major policy changes, we risk high costs to economic growth, human health, and the environment. But with sustainable financing, effective governance and coherent policies, governments can harness water's potential...'

The report highlighted the global challenges posed by increasingly rapid urbanisation, population growth and changing economic dynamics for managing water supply. With water demand projected to increase by 55% by 2050, there will be increased rivalry and excludability for this increasingly scarce resource. By that date, it is predicted that:

- 3.9bn people – more than 40% of the world's population – will be living in river basins facing severe water stress
- more than 240m people, most of them in rural areas, will lack access to a clean water source
- almost 1.4bn people will not have access to basic sanitation.

More information about the extent of these problems is shown in Fig. 3.1.

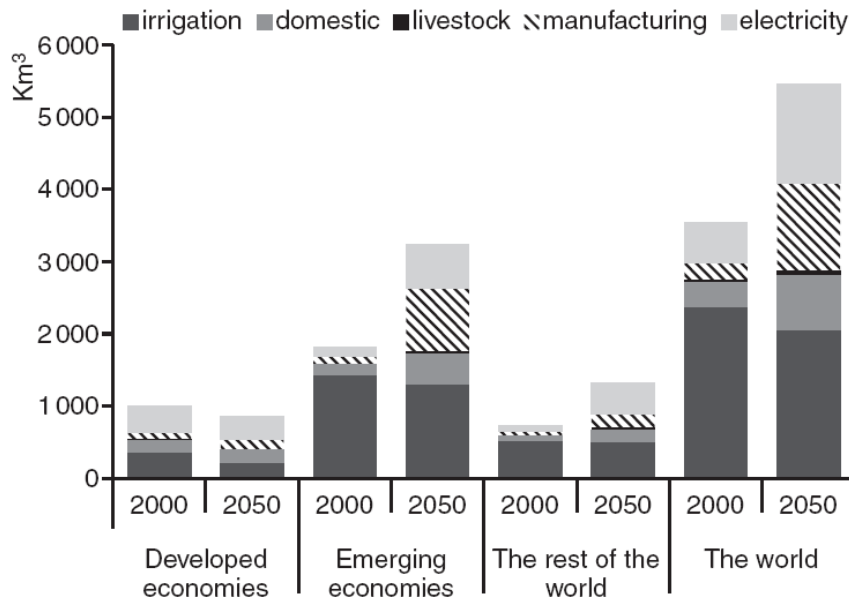
**Fig. 3.1 – Population lacking access to a clean water source, 1990–2050**



In addition, increased flows of nitrogen, phosphorus and pesticides from agriculture and poor wastewater treatment will contaminate ground water, rivers and oceans, harming the environment and human health.

As countries develop their economic structure will change, transitioning from relying on the primary sector, to manufacturing and then to tertiary. Over time a larger proportion of their Gross Domestic Product (GDP) is derived from manufacturing rather than agriculture and so their pattern of water demand (measured in km<sup>3</sup>) will change, as shown in Fig. 3.2.

**Fig. 3.2 – Global water demand by use, 2000 and 2050\***



*\*forecast*

25 Lifestyles and diets are becoming more westernised in the emerging economies. Average  
 incomes are rising as a consequence of high rates of economic growth. As a result more and  
 more people are consuming more and more water. Farmers are competing with households,  
 energy firms and industry for clean water, but economic production continues to pollute making  
 it harder to access sufficient clean water. A high volume of water consumption is just one  
 30 example of how economic growth has resulted in environmental degradation.

In 2014 the President of the World Bank gave a grave warning about the risks of natural  
 resource conflicts, particularly water and food. While the UK saw record rainfall, California in  
 the USA experienced the worst drought on record. It does not take much to remember the  
 35 spikes in global food prices that have occurred in recent years, as shown in Fig. 3.3. The  
 President of the World Bank also said that there would be no solution to climate change  
 without private sector involvement and urged companies to seize the opportunity to make  
 profits.

**Fig. 3.3 – World Bank food price index, 2008–2013**

	Q1	Q2	Q3	Q4
<b>2008</b>	n/a	n/a	87	80
<b>2009</b>	90	95	93	97
<b>2010</b>	91	90	101	110
<b>2011</b>	120	123	123	115
<b>2012</b>	120	121	132	121
<b>2013</b>	116	117	112	n/a

40 Governments have long debated the best response to natural resource conflicts and  
 environmental damage. They have considered the merits of policy measures, including:

- environmental taxation
- pollution permits
- 45 • subsidies for innovation into greener technologies
- subsidies to encourage firms to recycle water.

**31** State ~~two~~ functions of the environment.

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..... [2]

**32** Using Fig. 2.1, describe the trend in environmental taxes as a percentage of total tax revenue between 1998 and 2012.

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**33** Increased flows of nitrogen, phosphorus and pesticides from agriculture harm the environment.

Using an appropriate diagram, explain how the negative externalities arising from agricultural production cause market failure.

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**[15]**

**36** With reference to the data in Fig. 3.2, compare the forecast changes in:

- total water demand
- manufacturing water demand

in developed and emerging economies between 2000 and 2050.

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**[4]**

37\* Evaluate the extent to which changes in the structure of an economy will influence its ability to achieve sustainable development.

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