

A LEVEL ECONOMICS Specimen Assessment Materials 5

Candidate Name	Centre Number				Candidate Number			



A LEVEL ECONOMICS

COMPONENT 1

Economic Principles

SPECIMEN PAPER

1 hour 30 minutes



ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Do not use pencil or gel pen.

Do not use correction fluid.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer all the questions in the spaces provided.

INFORMATION FOR CANDIDATES

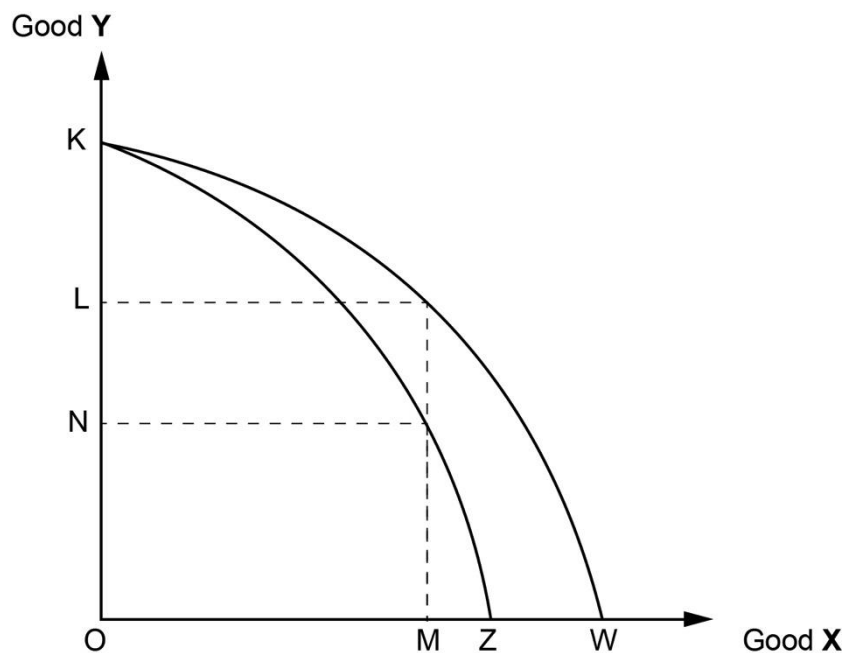
The number of marks is given in brackets at the end of each question or part-question.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

SECTION A

You are advised to spend approximately **30 minutes** on this section.

1. The diagram below shows production possibility curves before and after a technical discovery affecting the production of good X.



Which one of the following distances represents the **reduction** in the total opportunity cost of producing OM of X in terms of Y?

[1]

ANSWER

Tick **one** box only

- | | | |
|----------|----|--------------------------|
| A | KL | <input type="checkbox"/> |
| B | KN | <input type="checkbox"/> |
| C | LN | <input type="checkbox"/> |
| D | ZW | <input type="checkbox"/> |
| E | ZM | <input type="checkbox"/> |

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2. The demand curve for a commodity is a downward-sloping straight line along which a change in price of 1 penny is accompanied by a change in quantity of 200 units.

At the point on the demand curve where the price elasticity of demand is equal to -1, what would the price and quantity be? [1]

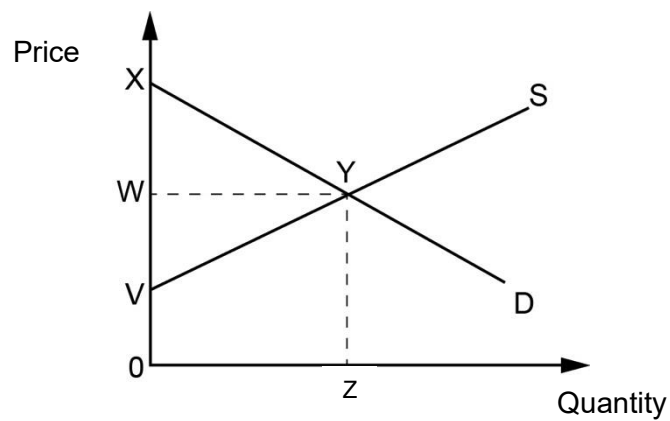
	Price (Pence)	Quantity (Units)	ANSWER Tick one box only
A	15	7000	<input type="checkbox"/>
B	20	6000	<input type="checkbox"/>
C	25	5000	<input type="checkbox"/>
D	30	4000	<input type="checkbox"/>
E	35	3000	<input type="checkbox"/>

3. Assuming that jam and honey are substitutes and that honey and beeswax are in joint supply, other things being equal, what will be the result of an increase in the price of jam? [1]

	Price of Honey	Price of Beeswax	ANSWER Tick one box only
A	Fall	Fall	<input type="checkbox"/>
B	Fall	No Change	<input type="checkbox"/>
C	Rise	Fall	<input type="checkbox"/>
D	Rise	Rise	<input type="checkbox"/>
E	Rise	No Change	<input type="checkbox"/>

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4. The diagram below shows the demand and supply curves for a commodity.



Which area measures the total amount consumers would be willing to pay for the equilibrium level of output?

[1]

ANSWER

Tick one box only

A OWYZ

B OXYZ

C VWY

D XYV

E XYW

5. The table below shows cost and revenue characteristics of two firms in long run equilibrium.

Firm X	Firm Y
AR exceeds MR	AR exceeds MR
AC equals AR	AR exceeds AC
AC exceeds MC	AC exceeds MC

Under which market structure does each firm operate?

[1]

	Firm X	Firm Y	ANSWER Tick one box only
A	Monopoly	Perfect Competition	<input type="checkbox"/>
B	Monopolistic Competition	Monopoly	<input type="checkbox"/>
C	Monopolistic Competition	Perfect Competition	<input type="checkbox"/>
D	Perfect Competition	Monopolistic Competition	<input type="checkbox"/>
E	Monopoly	Monopolistic Competition	<input type="checkbox"/>

6. Which **one** of the following is an internal economy of scale?

[1]

	ANSWER Tick one box only
A Cheaper loans from a local bank resulting from a merger between two firms	<input type="checkbox"/>
B Efficient local transport networks	<input type="checkbox"/>
C Specialist training facilities provided by a local college	<input type="checkbox"/>
D The reputation of an area for a particular product	<input type="checkbox"/>
E Technological change reducing the costs of all firms in an industry	<input type="checkbox"/>

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7.

Price (£)	Quantity demanded
10	1
9	2
8	3
7	4
6	5

From the above data it can be deduced that as price falls from £10 to £6: [1]

ANSWERTick **one** box only

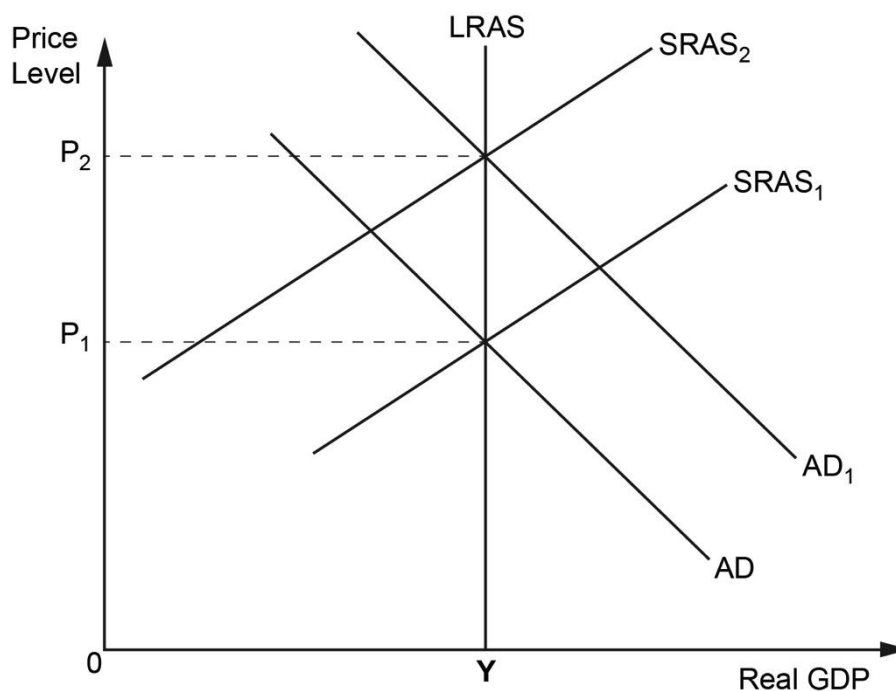
- A** Marginal revenue = average revenue
- B** Marginal revenue is rising
- C** Marginal revenue is greater than average revenue
- D** Average revenue is rising
- E** Marginal revenue is less than average revenue

8. Which one of the following is a characteristic of a pure public good? [1]

ANSWERTick **one** box only

- A** Consumption of the good by one individual prevents consumption by any other individual
- B** It confers benefits on consumers which are greater than they themselves perceive
- C** It is supplied by the government and financed out of taxation
- D** Non-payers cannot be prevented from using the good
- E** It is produced at zero opportunity cost

9.



SRAS = Short run aggregate supply curve

LRAS = Long run aggregate supply curve

AD = Aggregate demand curve

In the above diagram an economy is originally in equilibrium at price level P_1 .

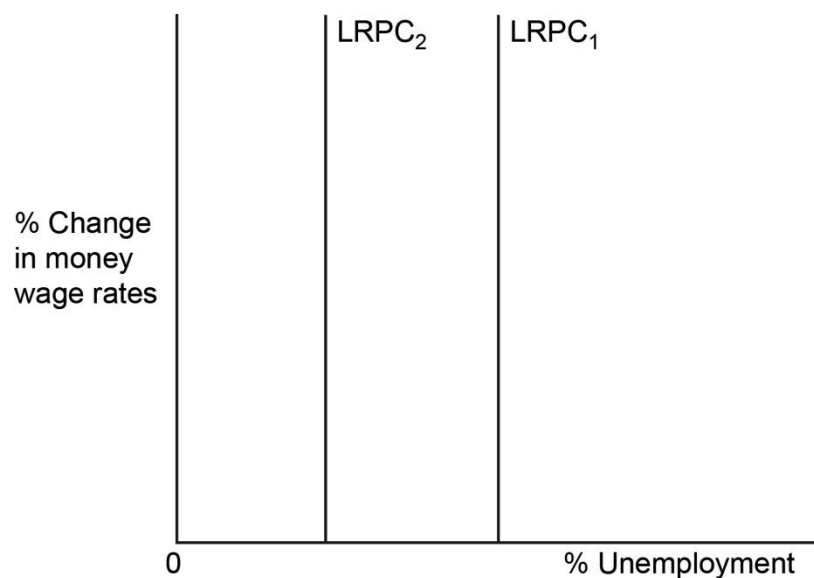
Which **one** of the following will shift the equilibrium to price level P_2 ?

[1]

ANSWERTick **one** box only

- A** A fall in government spending followed by a rise in money wage rates
- B** A fall in the money supply followed by a rise in money wage rates
- C** A rise in government spending followed by a rise in money wage rates
- D** A fall in interest rates followed by a fall in money wage rates
- E** A rise in income tax rates followed by a rise in money wage rates

10.



In the above diagram the long run Phillips Curve (LRPC) has moved from LRPC₁ to LRPC₂. This could have been brought about by:

[1]

ANSWER*Tick **one** box only*

- | | | |
|----------|--|--------------------------|
| A | A reflationary fiscal policy | <input type="checkbox"/> |
| B | The successful implementation of supply side policies | <input type="checkbox"/> |
| C | A fall in both the foreign exchange rate and the interest rate | <input type="checkbox"/> |
| D | A rise in the nominal money supply | <input type="checkbox"/> |
| E | The introduction of a national minimum wage | <input type="checkbox"/> |

11. The table below gives information on employment and output in a particular firm.

Number of workers	Total output
1	30
2	60
3	100
4	150
5	190
6	180

Diminishing returns to labour begin when which worker is employed?

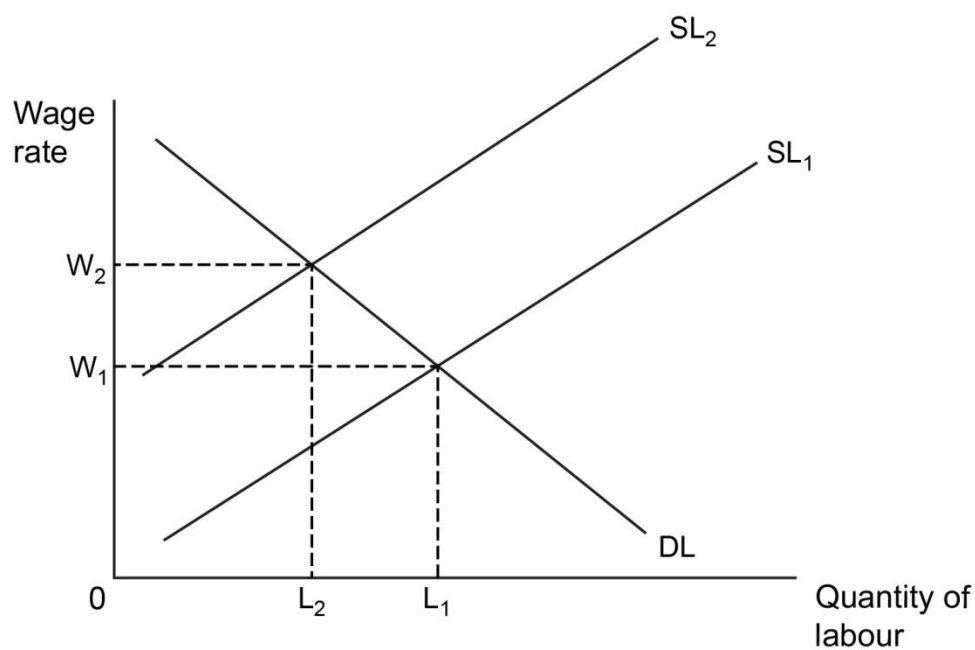
[1]

ANSWER

Tick **one** box only

- A** 2nd
- B** 3rd
- C** 4th
- D** 5th
- E** 6th

12.



In the labour market shown above the shift of the supply curve from SL_1 to SL_2 could have been caused by:

[1]

ANSWER*Tick **one** box only*

A A rise in the wage rate from W_1 to W_2

B An increase in emigration

C The deregulation of the labour market

D A rise in labour productivity

E A fall in the price of capital

13. GNP per capita measured in US dollars may be a poor indicator of comparative standards of living between developed countries and less developed countries because of a divergence in: [1]

ANSWER*Tick **one** box only*

- | | | |
|----------|--|--------------------------|
| A | Market exchange rates from purchasing power parities | <input type="checkbox"/> |
| B | Population growth rates in different countries | <input type="checkbox"/> |
| C | Rates of price and wage inflation | <input type="checkbox"/> |
| D | Ratios of imports to national income | <input type="checkbox"/> |
| E | Inflation rates and unemployment rates | <input type="checkbox"/> |

14. If a less economically developed country has a GDP greater than its GNP, this could be due to: [1]

ANSWER*Tick **one** box only*

- | | | |
|----------|--|--------------------------|
| A | A depreciation of its exchange rate | <input type="checkbox"/> |
| B | The repatriation of profits by a foreign multinational | <input type="checkbox"/> |
| C | A reduction in the level of aid given by developed countries | <input type="checkbox"/> |
| D | A fall in the price of the primary products that it exports | <input type="checkbox"/> |
| E | High levels of emigration by its skilled workers | <input type="checkbox"/> |

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15. The information below relates to an economy.

Money supply = £10m

Number of transactions = 5m

Velocity of circulation = 2

According to the quantity theory of money, the average level of prices will be: [1]

ANSWER

Tick **one** box only

- | | | |
|----------|-----|--------------------------|
| A | £2 | <input type="checkbox"/> |
| B | £4 | <input type="checkbox"/> |
| C | £8 | <input type="checkbox"/> |
| D | £10 | <input type="checkbox"/> |
| E | £50 | <input type="checkbox"/> |

16. Which one of the following would be most likely to shift both the aggregate demand and aggregate supply functions to the right? [1]

ANSWER

Tick **one** box only

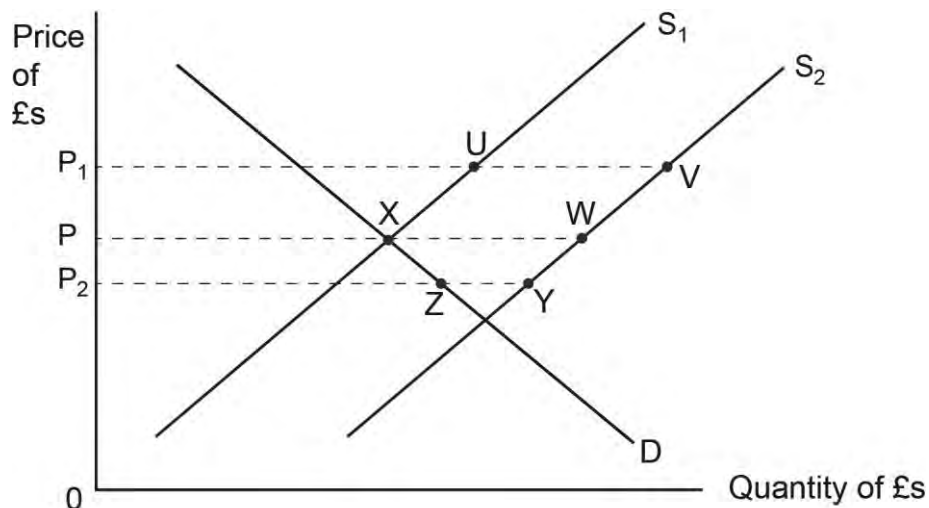
- | | | |
|----------|---|--------------------------|
| A | A fall in income tax rates | <input type="checkbox"/> |
| B | A rise in interest rates | <input type="checkbox"/> |
| C | A fall in government capital spending | <input type="checkbox"/> |
| D | A rise in government spending on benefits | <input type="checkbox"/> |
| E | A fall in the nominal money supply | <input type="checkbox"/> |

17. The natural rate of unemployment can best be defined as: [1]

ANSWER*Tick **one** box only*

- | | | |
|----------|--|--------------------------|
| A | The unemployment caused by a lack of aggregate demand in the economy | <input type="checkbox"/> |
| B | Unemployment caused by a cyclical downturn | <input type="checkbox"/> |
| C | The unemployment in the economy when the labour market is in equilibrium | <input type="checkbox"/> |
| D | The total number of people of working age who are economically inactive | <input type="checkbox"/> |
| E | Those who are registered as unemployed but work in the hidden economy | <input type="checkbox"/> |

18. The diagram below shows the demand and supply of pounds. A government is determined to keep its foreign exchange rate between P_1 and P_2 and the supply of pounds has shifted from S_1 to S_2 .



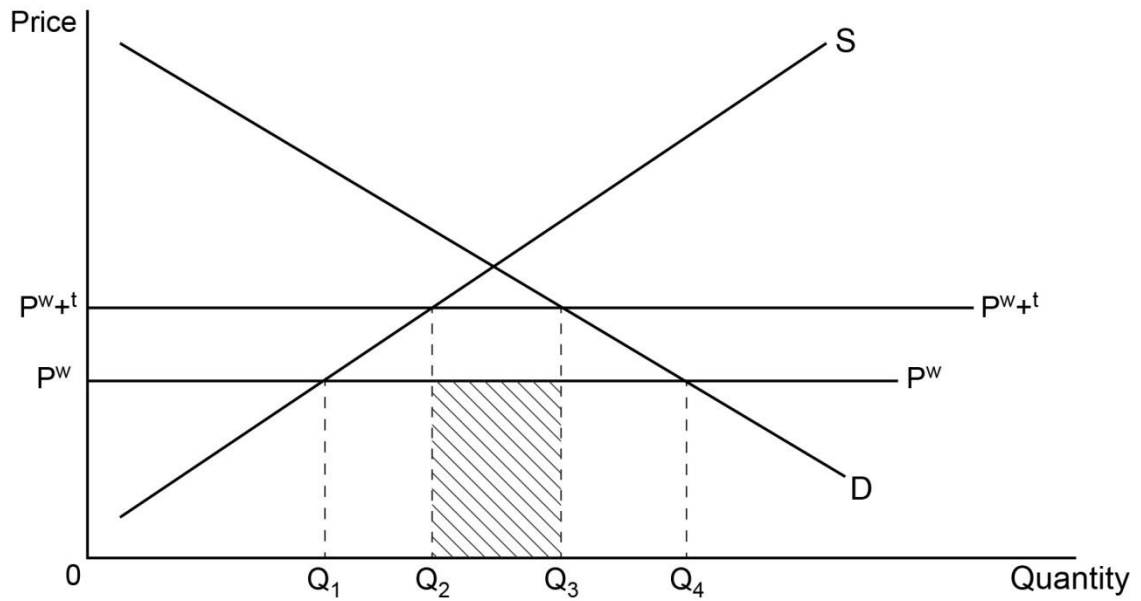
To keep the exchange rate within the agreed range, the monetary authorities will have to:

[1]

ANSWER
Tick **one** box only

- A Buy UV pounds
- B Sell XW pounds
- C Buy ZY pounds
- D Sell UV pounds
- E Sell ZY pounds

19. The diagram below shows the market for an internationally traded product where P^w = world price and P^{w+t} = world price plus a tariff.



Following the imposition of a tariff, what does the shaded area on the diagram represent? [1]

ANSWER
Tick **one** box only

- | | | |
|----------|---|--------------------------|
| A | Tariff revenue for the government | <input type="checkbox"/> |
| B | Revenue for domestic producers | <input type="checkbox"/> |
| C | Revenue for importers | <input type="checkbox"/> |
| D | The producer surplus for domestic producers | <input type="checkbox"/> |
| E | The welfare loss as a result of imposing a tariff | <input type="checkbox"/> |

20. In the table below, which combination of responses shows the most likely response of an economy to a sharp increase in base interest rates? [1]

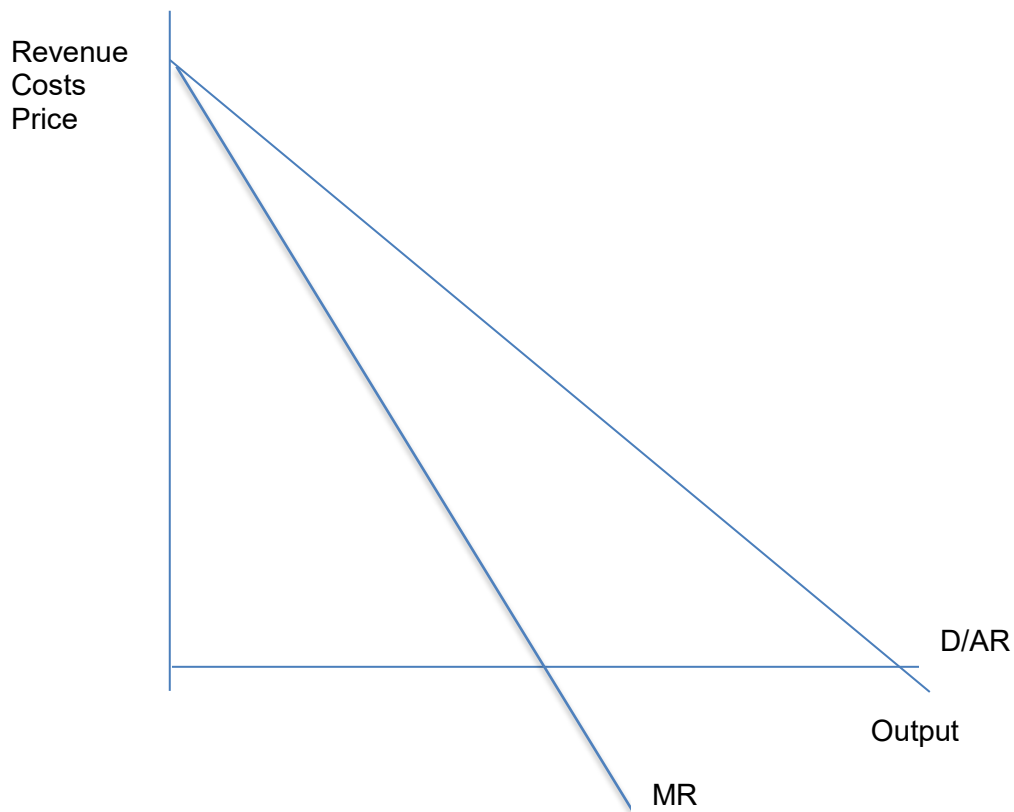
ANSWER
Tick **one** box only

	Exchange rate	Inflation	Growth	
A	Increase	Increase	Fall	<input type="checkbox"/>
B	Increase	Fall	Increase	<input type="checkbox"/>
C	Fall	Increase	Increase	<input type="checkbox"/>
D	Increase	Fall	Fall	<input type="checkbox"/>
E	Fall	Fall	Increase	<input type="checkbox"/>

22. Firms profits fall during economic downturns

As a result of an economic downturn, a firm in monopolistic competition discovers that it is no longer making normal profit.

Assuming that the firm is trying to minimise its losses, **complete** the diagram below to illustrate and **explain** the output and loss that the firm makes. [4]



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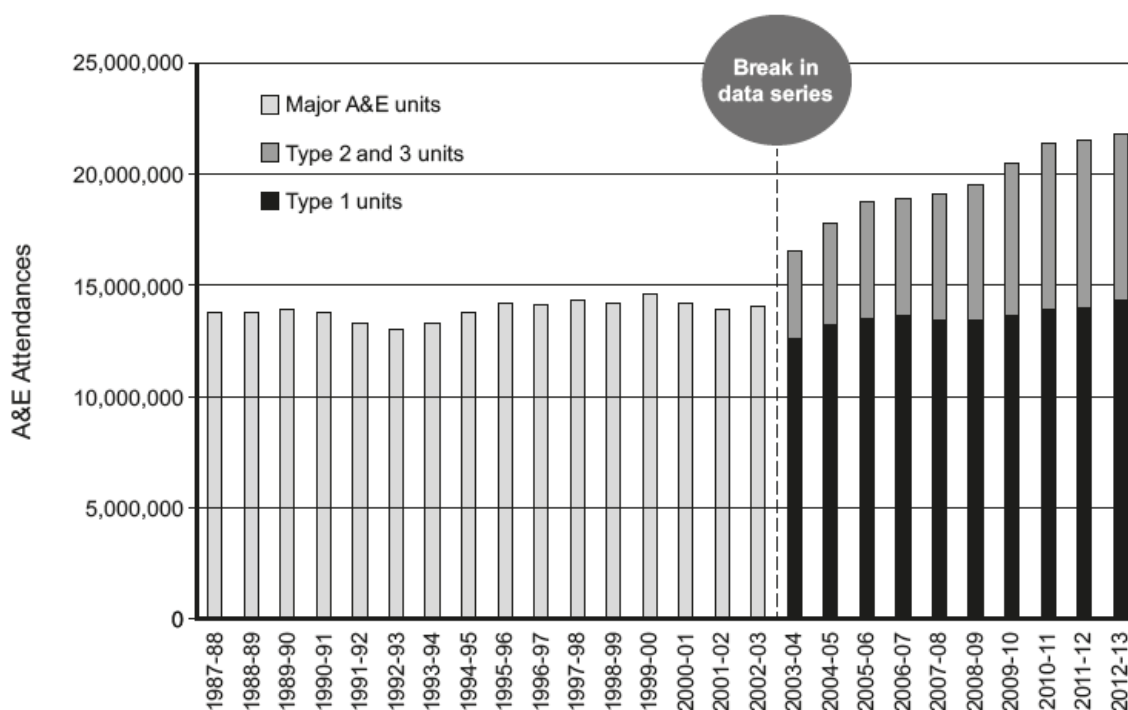
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23. Patients should pay £10 to visit A&E, say family doctors

Family doctors are demanding that patients pay £10 for every visit to a hospital accident and emergency (A&E) department.

Doctors have claimed that the fee would reduce the number of “inappropriate” A&E attendances and relieve pressure on casualty staff. But last night campaigners said the crisis in NHS hospitals was due to family doctors no longer providing a full service in the evenings and at weekends.

Figure 1: Annual attendances in A&E units: 1987/8 to 2012/13

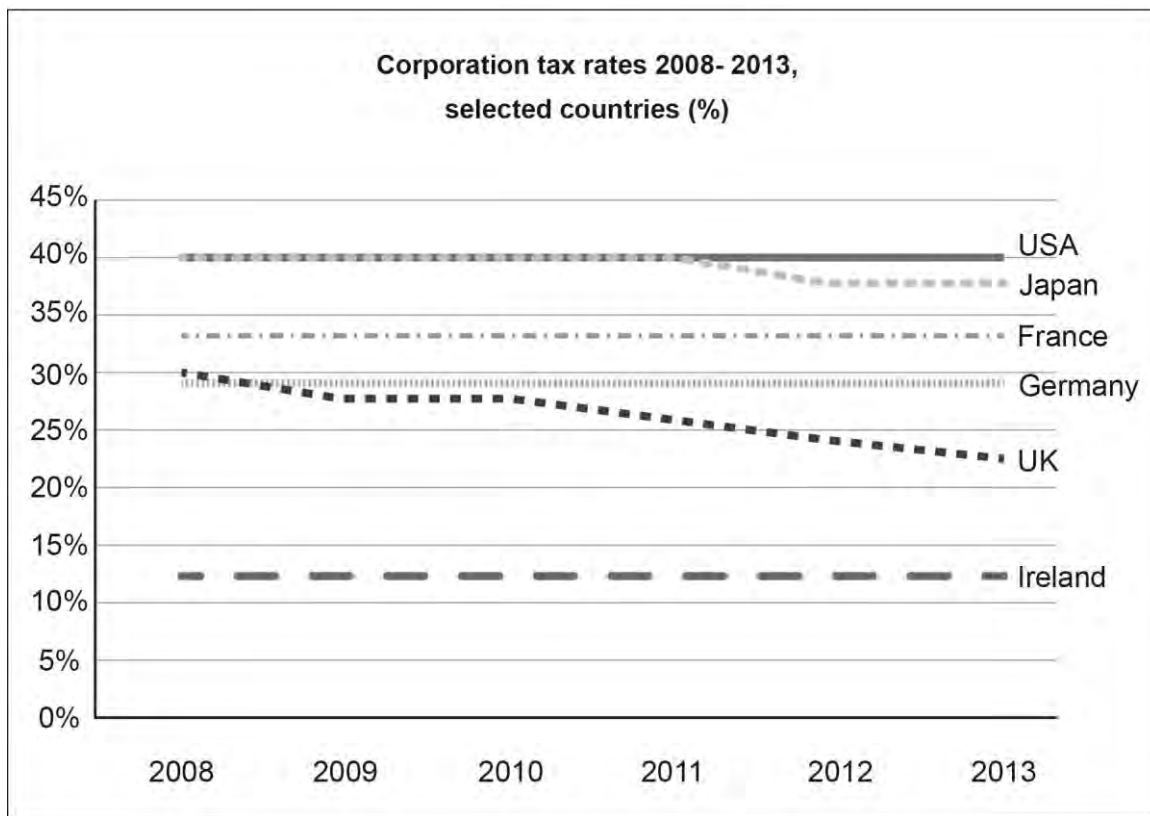


A third of family doctors questioned supported charging patients £5 or £10 for visiting A&E. Refunds were proposed if the trip was seen by hospital staff to be necessary. One doctor said: “If patients had to pay a £5 charge to attend A&E... I think they would get help for minor problems like coughs from their pharmacist instead of taking up space in hospitals, where more urgent cases need to be treated.”

Others, however, were very concerned to retain the principle that **access to the health service should be free at the point of use**. Joyce Robins for Patient Concern argued that: “If family doctors were more available then the A&E crisis wouldn’t have happened. If hospitals did charge for A&E visits, then presumably, ambulance crews would have to wait until a patient could find their purse.”

Source: www.express.co.uk 3 January 2014

24.



Discuss the extent to which the trends shown in the chart above are likely to be beneficial for the UK economy.

[6]

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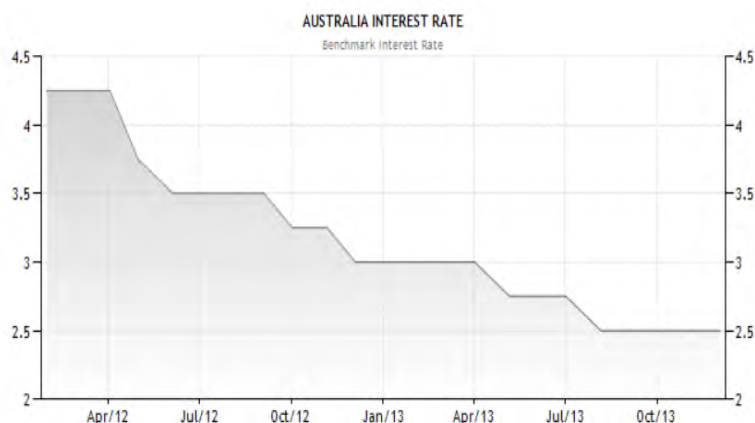
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26. Surprise jobless rise in Australia sparks interest rate cut speculation



The number of unemployed people in Australia rose to 722,000 in January 2014, the highest level in more than 15 years, as the national unemployment rate rose from 5.7 per cent to 5.8 per cent.

The surprise deterioration in the job market was worst in states producing primary products.

"We think the greatest risk to the Australian economy this year is the prospect of unemployment breaking out above 6 per cent", Market Analyst, Peter Esho, said.

The announcement of the unemployment figures caused the Australian dollar to fall immediately to a new annual low of US\$ 0.88, as investors considered the increased possibility that the Reserve Bank might decide to cut the base interest rate further in coming months.

Economists had expected employment to rise in December, in keeping with other indicators showing rising business and consumer confidence.

The participation rate - the share of the working age population looking for work - decreased slightly to 64.6 per cent, the lowest level since 2006.

Prior to the rise in unemployment, an interest rate cut had seemed less likely as inflation rose sharply in the second half of 2013, driven mainly by a fall in the Australian dollar which pushed up the price of petrol, clothes and international travel. Nevertheless the annualised inflation rate was still only 2.3 per cent, well within the Reserve Bank's target annual range of 2-3 per cent.

However, the central bank's preferred measure (the rate of underlying inflation, which strips out volatile items) rose at an annual pace of nearly 2.8 per cent, which was a little more quickly than economists had expected.

