Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____
I declare this is my own work.

AS
ECONOMICS

Paper 1 The Operation of Markets and Market Failure

Tuesday 13 May 2025 Morning Time allowed: 1 hour 30 minutes

Materials
For this paper you must have:
- the Insert
- a calculator.

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- Answer **all** questions in **Section A**.
- Answer **either** Context 1 **or** Context 2 in **Section B**.
- You will need to refer to the Insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The maximum mark for this paper is 70.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

Do not write outside the box

Section A

Answer **all** questions in this section.

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

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD ⬬ WRONG METHODS ⊗ ⊙ ≋ ✓

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

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. ⊗

0 1 Which one of the following would **not** be classified by an economist as a factor of production?

[1 mark]

A Labour temporarily out of work ⬭

B Money in a firm's bank account ⬭

C Non-agricultural land ⬭

D Risk-taking entrepreneurs ⬭

0 2 The central purpose of economic activity is the production of goods and services to satisfy needs and wants.

Which of the following is one of the three key decisions that has to be taken to achieve this?

[1 mark]

A How to achieve economies of scale ⬭

B What goods and services to produce ⬭

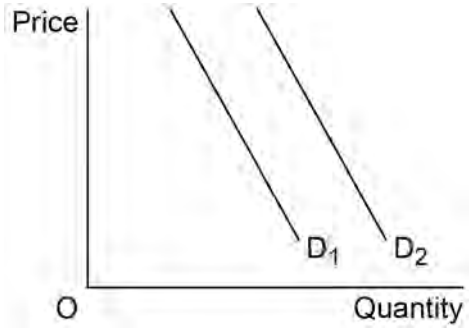
C Where to locate businesses ⬭

D Whether to maximise profit or sales ⬭

Do not write outside the box

0 3 **Figure 1** shows the market demand for electric cars.

Figure 1



The shift of the market demand curve from D_1 to D_2 would most likely be caused by

[1 mark]

A a fall in the price of electric cars. ⬭

B a government subsidy to producers of electric cars. ⬭

C a marketing campaign promoting electric cars. ⬭

D a reduction in the price of petrol and diesel fuels. ⬭

0 4 A firm hopes to increase its market share by setting its prices lower than most of its competitors.

What is the most likely reason for this strategy?

[1 mark]

A The firm has a licence that gives it a temporary monopoly ⬭

B The firm is a price taker in a very competitive market ⬭

C The firm is aiming to differentiate its products from its competitors ⬭

D The firm is aiming to increase its long-run profits ⬭

Do not write outside the box

0 5 A firm allows customers to personalise a mug with a name of their choice, which it sells for £15. The firm pays £3 for each mug. The paint and labour cost an extra £7. The firm has fixed costs of £150 per month and in a typical month, it produces and sells 60 mugs.

What is the average cost of producing one personalised mug?

[1 mark]

A £2.50 ⬭

B £5 ⬭

C £10 ⬭

D £12.50 ⬭

0 6 One reason why merit goods, such as education and health care, can lead to market failure is that

[1 mark]

A individuals are unwilling to pay for merit goods. ⬭

B individuals have incomplete information about merit goods. ⬭

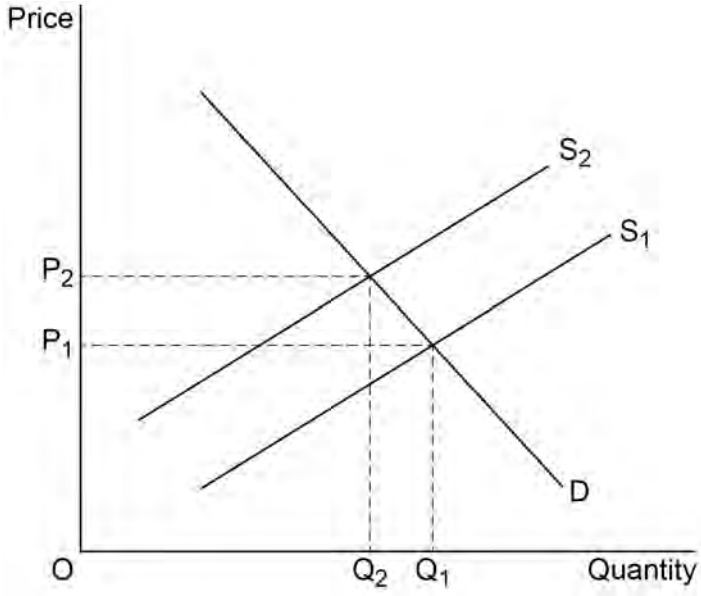
C merit goods are generally provided free by the government. ⬭

D merit goods are subject to the free-rider problem. ⬭

Do not write outside the box

0 7 **Figure 2** shows the market for a good. S_1 shows the supply if only private costs are considered and S_2 shows the supply if social costs are taken into account.

Figure 2



At the free market output, there is

[1 mark]

A a negative externality and overproduction of the good. ⬭

B a negative externality and underproduction of the good. ⬭

C a positive externality and overproduction of the good. ⬭

D a positive externality and underproduction of the good. ⬭

Turn over for the next question

Do not write outside the box

0 8 Microchips are used in a wide range of products, including mobile phones and traffic lights. If demand increases for one of these products, this affects the price of other products that need microchips.

This is an example of

[1 mark]

A complementary goods. ⬭

B composite demand. ⬭

C joint supply. ⬭

D substitute goods. ⬭

0 9 A firm uses a variety of strategies to improve its market position.

Which one of the following strategies is most likely to benefit consumers in the long run?

[1 mark]

A An advertising campaign that promotes the product's image ⬭

B Charging low prices to drive rival firms out of the market ⬭

C Investing in research and development to improve product quality ⬭

D Merging with a rival to reduce competition in the market ⬭

Do not write outside the box

1 0 **Table 1** shows the percentage market share of firms in a particular industry in 2020 and 2023.

Table 1

	Market share (%), 2020	Market share (%), 2023
Firm 1	28	31
Firm 2	24	29
Firm 3	20	6
Firm 4	18	16
Firm 5	3	1
All other firms	7	17

What was the change in the three-firm concentration ratio over the period 2020 to 2023?

[1 mark]

A A fall of 6 percentage points ⬭

B A fall of 7 percentage points ⬭

C A rise of 4 percentage points ⬭

D A rise of 5 percentage points ⬭

1 1 All other things being equal, which one of the following is most likely to result in a fall in the market price of rice?

[1 mark]

A Farmers releasing less rice for sale ⬭

B Good weather conditions for growing rice ⬭

C More wheat being planted instead of rice ⬭

D The removal of a subsidy for growing rice ⬭

Do not write outside the box

1 2 Which one of the following is most likely to influence the price elasticity of supply of a good or service?

[1 mark]

A The availability of spare capacity

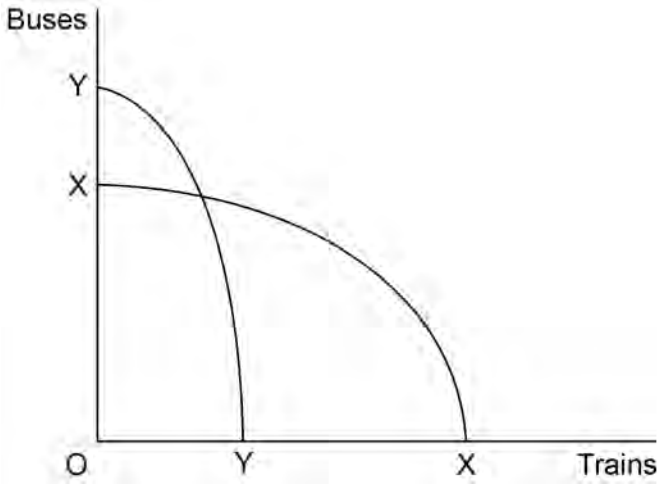
B The number of substitutes for the product

C The percentage of income spent on the good

D The price of complementary goods

1 3 In **Figure 3**, the curve XX shows the initial production possibility boundary (PPB) for a toy manufacturer producing trains and buses.

Figure 3



Which one of the following combinations is most likely to explain why the firm's PPB has shifted from XX to YY?

[1 mark]

	Buses	Trains
A	Demand has increased for buses	Demand has fallen for trains
B	Fewer consumers are using buses	Technical progress has increased the potential output of trains
C	More resources have been allocated to producing buses	Fewer resources have been allocated to producing trains
D	Productivity has risen for the manufacture of buses	Productivity has fallen for the manufacture of trains

Do not write outside the box

1 4 Which one of the following is the best example of a situation where there is asymmetric information?

[1 mark]

A A firm operating in perfect competition

B A seller knowing more than a buyer

C Two buyers being equally informed

D Two firms working together on a new product

1 5 **Table 2** shows the weekly demand for two products, apples and pears, before and after a change in the price of pears.

Table 2

	Price of apples (£/kg)	Price of pears (£/kg)	Demand for apples (kg)	Demand for pears (kg)
Before the price change	1.60	2.50	5000	2000
After the price change	1.60	3.00	5500	1500

What is the cross elasticity of demand for apples following the change in the price of pears?

[1 mark]

A –5.0

B –1.25

C +0.5

D +2.0

Do not write outside the box

1 6 Developed economies, such as the UK, are characterised by high levels of specialisation which involve workers concentrating on a specific task or occupation.

This specialisation is possible because in such economies

[1 mark]

A an effective medium of exchange exists. ⬭

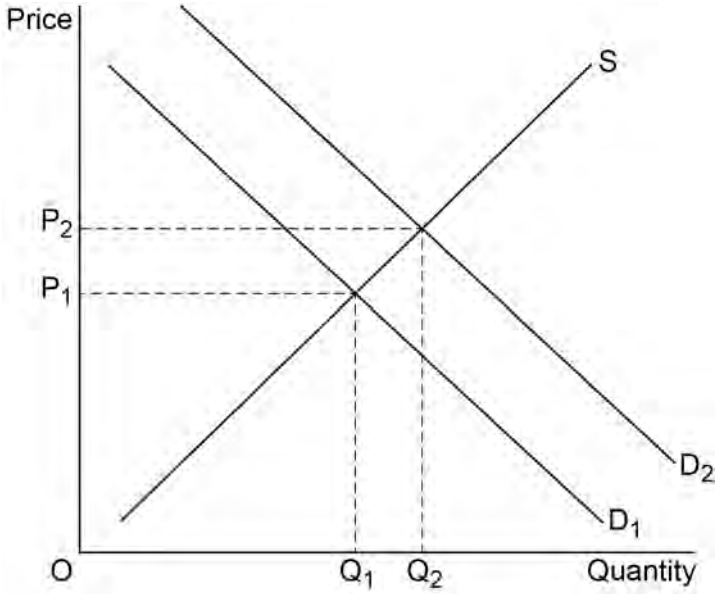
B markets tend to have high levels of concentration. ⬭

C production is concentrated in the service sector. ⬭

D production tends to involve mainly unskilled labour. ⬭

1 7 **Figure 4**, shows the original demand (D_1) and supply (S) in the market for jewellery. D_2 shows the demand after an increase in incomes.

Figure 4



After the increase in incomes, the market price of jewellery will rise due to

[1 mark]

A excess demand at price P_1. ⬭

B excess supply at price P_1. ⬭

C increased average cost of producing jewellery. ⬭

D increased competition between sellers. ⬭

Do not write outside the box

1 8 Following a period of unusually cold weather, growers find that many of their tomato plants have been destroyed, reducing the supply of tomatoes.

As a result of this

[1 mark]

A the price of tomatoes falls due to the signalling function of prices. ⬭

B the price of tomatoes rises due to the rationing function of prices. ⬭

C the quantity of tomatoes demanded rises due to the incentive function of prices. ⬭

D the supply of tomatoes will fall further due to the signalling function of prices. ⬭

1 9 **Table 3** shows indices for the total revenue and total cost for a firm in the years 2021 to 2023, with 2022 set as the base year.

Table 3

	Index of total revenue	**Index of total cost**
2021	96	98
2022	100	100
2023	102	102.9

In 2021, the firm's total revenue was £180 000 and its total cost was £160 000.

What was the firm's total profit in 2023?

[1 mark]

A £20 000 ⬭

B £20 180 ⬭

C £22 960 ⬭

D £23 250 ⬭

Do not write outside the box

2 0 Which one of the following is an example of government failure due to unintended consequences?

[1 mark]

A A government target to increase police officers is missed due to a low number of applicants

B Government provision of a free flu vaccine for the over 60s has a low take-up

C The government cancels a plan for a new railway line after an expensive planning enquiry

D The government introduces a charge at a waste disposal site which leads to illegal dumping

20

END OF SECTION A

Do not write outside the box

Section B

Look at the Insert and choose to answer **EITHER** Context 1 **OR** Context 2.

Answer **EITHER** Questions 21 to 26 in the spaces below.

OR

Questions 27 to 32 on pages 24 to 33 of this answer booklet.

There is a total of 50 marks for either context.

Shade the circle below to indicate which context you have answered.

Context 0 1 ⬭ Context 0 2 ⬭

CORRECT METHOD ●

WRONG METHODS ⊗ ⦿ ≋ ✓

EITHER

Context 1 **Total for this context: 50 marks**

FLOOD DEFENCES

Use the Insert provided to study **Questions 21** to **26** and **Extracts A**, **B** and **C**, and then answer the questions in the spaces which follow.

2 1 Define 'opportunity cost' **Extract C** (line 20).

[3 marks]

Do not write outside the box

2 2 **Extract A** shows the capital expenditure on flood defences by region in England, 2015 to 2021, split between 'Local government levy' and 'Other'.

Calculate the difference between the mean and median amounts of capital expenditure paid for by the local government levy in the regions of England for the period 2015 to 2021.

Give your answer in £m to **one** decimal place.

[4 marks]

Do not write outside the box

2 3 Use **Extract A** to identify **two** significant points of comparison between the amount of capital expenditure on flood defences that is financed by the local government levy and the amount that is financed by other sources.

[4 marks]

Comparison 1 _____

_____

_____

_____

_____

Extra space _____

_____

Comparison 2 _____

_____

_____

_____

_____

Extra space _____

_____

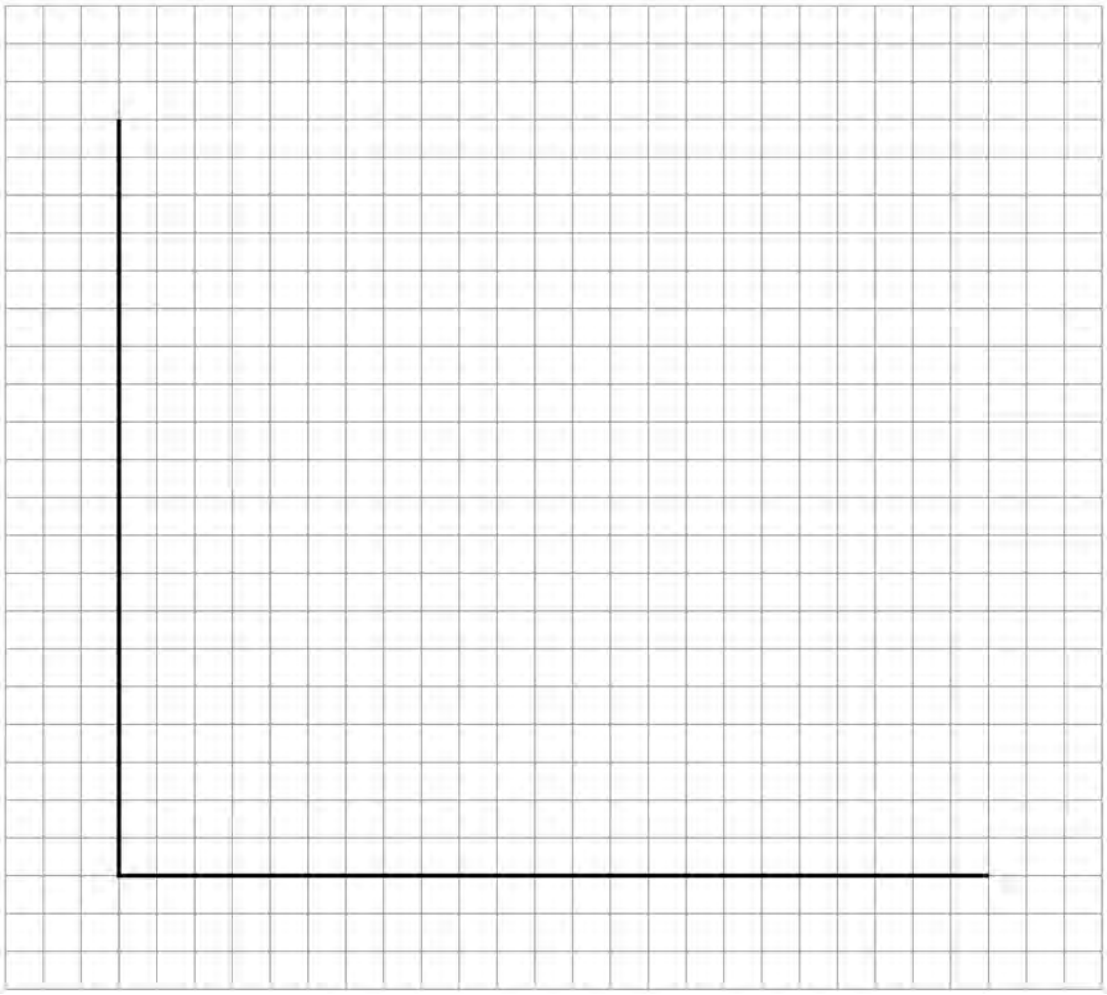
Turn over for the next question

Do not write outside the box

2 4 **Extract C** (lines 16–17) states: 'With fewer restrictions on where houses can be built, some homes are being built where there are inadequate flood defences'.

Draw a supply and demand diagram showing the impact on the market for new houses if restrictions are removed on where houses can be built.

[4 marks]



Do not write outside the box

2 5 **Extract C** (lines 14–15) states: 'The UK House Price Index was 152.6 in August 2023, up 52.6% since January 2015.'

Explain possible reasons why the price of houses has increased in recent years.

[10 marks]

Do not write outside the box

Extra space

Do not write outside the box

2 6 **Extract B** (lines 7–8) states: 'Between 2010 and 2015, the UK government spent over £1.7bn to protect about 250 000 homes, 28 000 business properties and 800 000 acres of farmland.'

Use the extracts and your knowledge of economics to evaluate whether government should be solely responsible for paying for flood defences.

[25 marks]

Do not write outside the box

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

50

Do not write outside the box

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

OR

Context 2 **Total for this context: 50 marks**

COFFEE

Use the Insert provided to study **Questions 27** to **32** and **Extracts D**, **E** and **F**, and then answer the questions in the spaces which follow.

2 7 Define 'productivity' **Extract F** (line 3).

[3 marks]

2 8 **Extract E** (lines 3–4) states: 'in 2018, this increased to 95 million, with 65% of these consumed at home. The other 35% was split 5:2 between consumption at work and in shops respectively.'

Calculate the number of cups of coffee drunk at work in 2018. Give your answer to the **nearest million** cups.

[4 marks]

Do not write outside the box

2 9 Use **Extract D** to identify **two** significant points of comparison between the forecast price and the actual price of coffee over the period shown.

[4 marks]

Comparison 1 _____

_____

_____

_____

_____

Extra space _____

_____

Comparison 2 _____

_____

_____

_____

_____

Extra space _____

_____

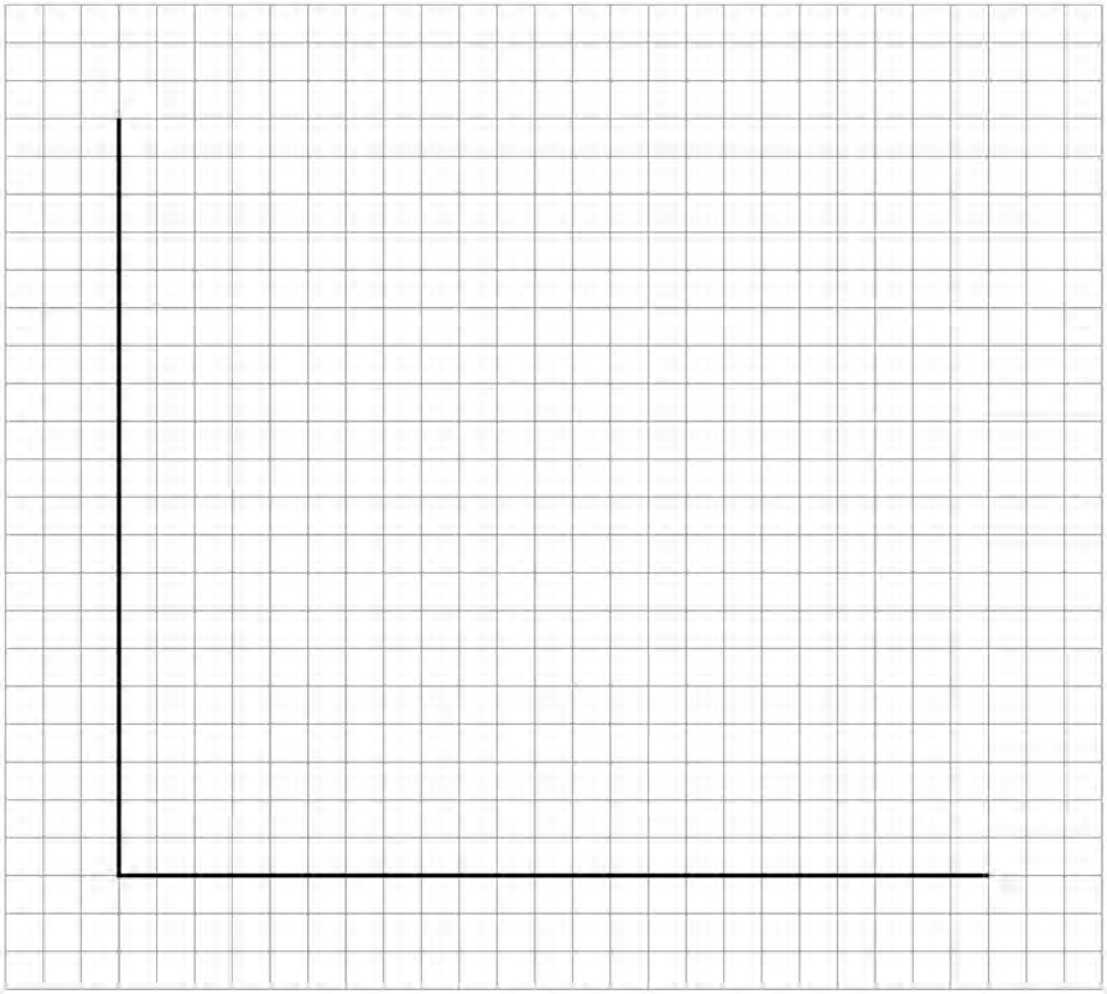
Turn over for the next question

Do not write outside the box

3 0 **Extract E** (lines 7–8) states: ‘with more people working from home, having your own coffee machine is now more common.’

Draw a diagram to show the impact on total revenue of a rise in the price of coffee machines if their demand is inelastic. The total revenue from the sale of coffee machines, both before and after the rise in price, should be labelled clearly.

[4 marks]



Do not write outside the box

3 1 **Extract E** (lines 10–11) states: 'Similarly, the price of the capsules also affects the demand for the coffee machines.'

Explain how an increase in the price of coffee capsules is likely to affect the market for coffee machines to use at home.

[10 marks]

Do not write outside the box

Extra space

Do not write outside the box

3 2 **Extract F** (lines 1–2) states: 'There are various markets for coffee at different stages of the production and consumption process, and at local and global levels.'

Use the extracts and your knowledge of economics to evaluate whether or not governments should intervene in the various markets for coffee.

[25 marks]

Do not write outside the box

Do not write outside the box

Do not write outside the box

Extra space

Do not write outside the box

50

END OF QUESTIONS

Do not write outside the box

There are no questions printed on this page

DO NOT WRITE ON THIS PAGE
ANSWER IN THE SPACES PROVIDED

Do not write outside the box

Question number	Additional page, if required. Write the question numbers in the left-hand margin.

Do not write outside the box

Question number	Additional page, if required. Write the question numbers in the left-hand margin.
	Copyright information For confidentiality purposes, all acknowledgements of third-party copyright material are published in a separate booklet. This booklet is published after each live examination series and is available for free download from www.aqa.org.uk Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders may have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements. If you have any queries please contact the Copyright Team. Copyright © 2025 AQA and its licensors. All rights reserved.