



Oxford Cambridge and RSA

**Tuesday 4 June 2019 – Morning**

**A Level Economics**

**H460/03 Themes in economics**

**Time allowed: 2 hours**



**You may use:**

- a scientific or graphical calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

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Last name

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### INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- 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. If additional space is required, use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

### 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 **28** pages.

## 2

## SECTION A

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

Write your answer for each question in the box provided.

1

Indicator	2005	2006	2007	2008	2009
Economic Growth Rate (%)	2.97	2.50	2.56	-0.63	-4.33
Inflation Rate (%)	2.05	2.33	2.32	3.61	2.17
Interest Rate (%)	4.50	5.00	5.50	2.00	0.50
Unemployment Rate (%)	4.75	5.35	5.26	5.61	7.54

The data above shows changes in macroeconomic variables in the period 2005–09 in the UK economy. In which year was the economy most at risk of being in a liquidity trap?

- A 2005
- B 2007
- C 2008
- D 2009

Your answer

[1]

- 2 Statement 1: Qatar is more economically developed than Norway because GDP per capita is \$127 660 USD in Qatar and \$69 249 USD in Norway.

Statement 2: The claimant count rate of unemployment is higher in Norway than in Qatar.

Which of the following correctly categorises these statements?

	Statement 1	Statement 2
A	Normative	Normative
B	Normative	Positive
C	Positive	Normative
D	Positive	Positive

Your answer

[1]

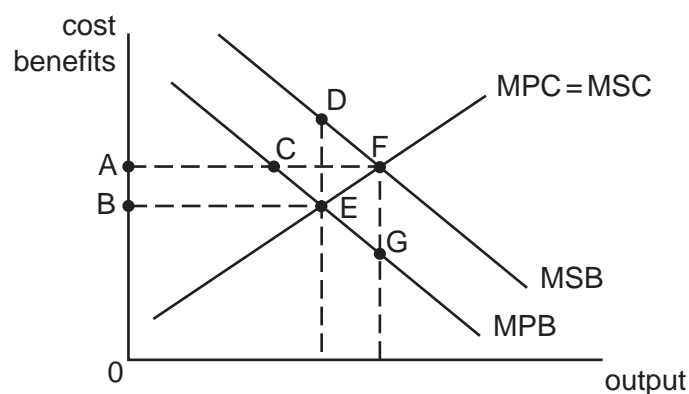
3

- 3 The theory of comparative advantage seeks to explain patterns of trade. Which of the following is a weakness of the theory of comparative advantage?
- A A developing country may lack the capital to have an absolute advantage in the production of any good or service over a developed country
  - B Countries will import goods from countries that can produce those goods at a lower opportunity cost
  - C Heckscher-Ohlin theory suggests countries should specialise in producing goods which intensively use factors of production they have large endowments of
  - D High transport costs mean countries are more likely to trade with neighbouring countries

Your answer

[1]

- 4 Which area represents the size of the welfare loss if provision of the good in the diagram below is left to the free market?



- A ABEF
- B CEF
- C DEF
- D EFG

Your answer

[1]

4

5 What is the reward for capital?

- A Interest
- B Profit
- C Rent
- D Wages

Your answer

[1]

6 What is the accelerator effect?

- A An increase in aggregate demand causes a greater final change in real GDP
- B As economic growth pushes the economy towards full capacity the rate of inflation increases rapidly
- C Increases in expected demand will increase the level of investment in the economy
- D Sacrificing the production of consumer goods for capital goods in the short run can increase the rate of economic growth in the long run

Your answer

[1]

7 Which theory argues a high savings ratio is fundamental to achieving economic growth?

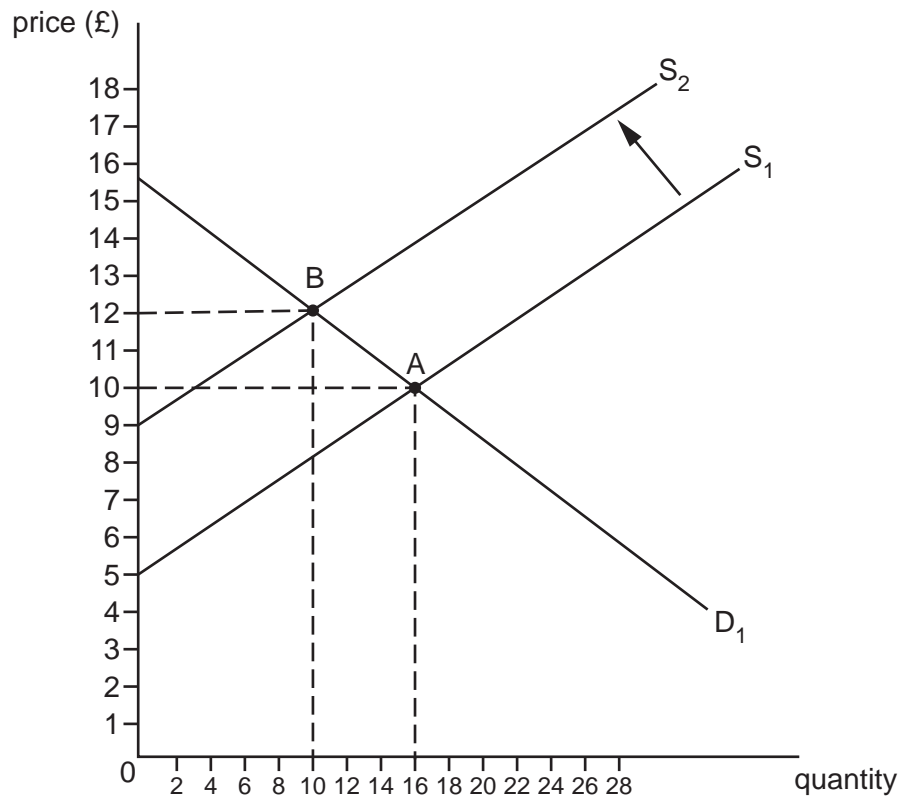
- A Harrod-Domar model
- B Heckscher-Ohlin model
- C Marshall-Lerner condition
- D Prebisch-Singer hypothesis

Your answer

[1]

5

- 8 What is the change in producer surplus as a result of the market equilibrium moving from point A to point B in the diagram below?



- A -£31  
 B -£25  
 C £25  
 D £31

Your answer

[1]

- 9 Sweden is generally considered to have relatively high unit labour costs. What might be the reason for this?

- A High investment in physical capital  
 B High levels of employment protection laws  
 C Low costs of living  
 D Low tax rates

Your answer

[1]

6

10 Which of the following assumptions is made in the quantity theory of money?

- A Interest rate is fixed
- B Money supply is fixed
- C Price level is fixed
- D Velocity of money is fixed

Your answer

[1]

11 In which of the following cases are firms most likely to be productively and allocatively efficient?

- A Monopolistically competitive market in the long run with firms making normal profit
- B Natural monopoly
- C Perfectly competitive market in the short run with firms making supernormal profit
- D Perfectly contestable market

Your answer

[1]

12 Which pair of diagrams below illustrates long run economic growth?

<p><b>A</b></p>		
<p><b>B</b></p>		
<p><b>C</b></p>		
<p><b>D</b></p>		

Your answer

[1]

8

13 Which of the following is a harm caused by a high rate of inflation?

- A Imports become relatively more expensive
- B Investment decreases
- C Real wage flexibility occurs
- D The real value of debt increases

Your answer

[1]

14 Two firms, Y and Z, are competing in an oligopoly market. They are deciding whether to price their good at £10 or £5. Game theory can be used to analyse their behaviour. If collusion breaks down, which of the options below represents the profits firms will earn in the long run?

		Firm Z	
		£10	£5
Firm Y	£10	Option A £150m, £150m	Option B £30m, £250m
	£5	Option C £250m, £30m	Option D £80m, £80m

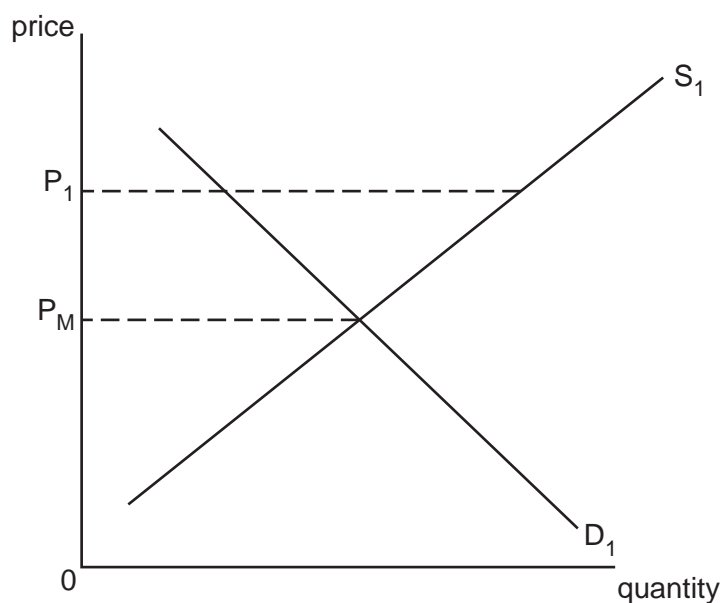
Your answer

[1]



9

15 The market equilibrium price is  $P_M$ . What could have caused the price to be at  $P_1$ ?



- A Maximum price
- B Minimum price
- C Subsidy
- D Tax

Your answer

[1]

16 Which of the following is an insight from the Austrian school of thought?

- A Increasing public spending can promote economic recovery in times of recession
- B Prices are determined by subjective factors such as individual preference
- C The economy will rapidly converge to the natural rate of output
- D There is a trade-off between unemployment and inflation

Your answer

[1]

10

17 Which component of the balance of payments accounts for dividends from foreign stocks and shares?

- A Capital account
- B Credit account
- C Current account
- D Financial account

Your answer

[1]

18 The demand for a good is expected to decrease from 52 000 to 46 000 when average incomes increase from £20 000 to £24 000. What is the income elasticity of demand for the good?

- A -1.73
- B -0.78
- C -0.58
- D 1.73

Your answer

[1]

19 When would the quantity of labour supplied increase more than proportionally to an increase in the wage rate?

- A It is easy to substitute labour for capital
- B Labour costs take up a high proportion of total costs
- C There is a high level of skill required in the job
- D The job requires minimal training

Your answer

[1]

20 When will remittances make a significantly positive contribution to a country's GDP?

- A The financial account of the balance of payments is in surplus
- B The level of emigration is high
- C The level of immigration is high
- D The rate of unemployment is low

Your answer

[1]

21 In 2016 Argentina experienced negative economic growth, with output falling by 2.3% to \$571.3bn. Population growth was 1% over the same period. Calculate the change in GDP per capita in Argentina between 2015 and 2016 if in 2015 Argentina had a population of 43.42 million people.

- A -\$444
- B -\$440
- C -\$178
- D \$172

Your answer

[1]

22 Which condition will a sales volume maximising firm use to determine its level of output?

- A  $AC = AR$
- B  $AR = AVC$
- C  $MC = MR$
- D  $MR = 0$

Your answer

[1]

23 What can the government do to finance a budget deficit?

- A Devalue the exchange rate
- B Increase export subsidies
- C Issue government bonds
- D Reduce the money supply

Your answer

[1]

24 The data below shows key macroeconomic performance indicators for four countries.

	2016 Inflation Rate (CPI)	2016 Unemployment Rate (ILO)	2015 GDP Growth Rate	2016 GDP Growth Rate
Ireland	0%	8.1%	26.3%	5.2%
Malta	0.6%	5.3%	7.4%	5%
Ukraine	13.9%	8.9%	-9.8%	2.3%
United Kingdom	0.6%	4.8%	2.2%	1.8%

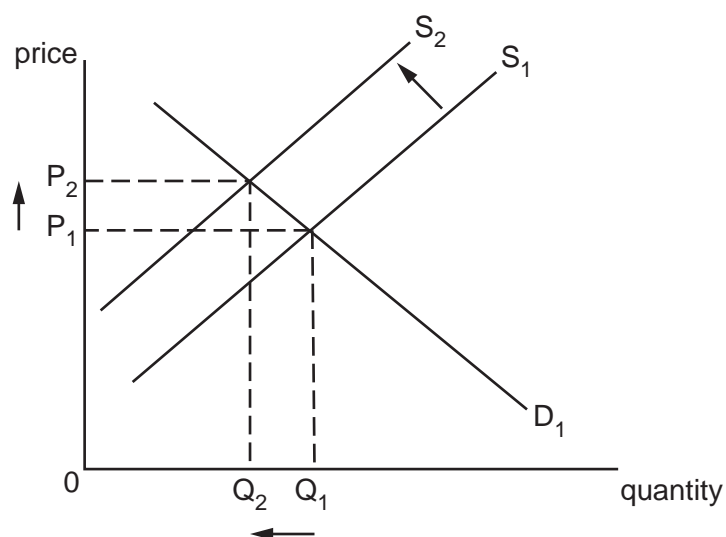
If an economist was judging the performance of these economies from the perspective of the UK government macroeconomic policy objectives, which would they decide performed best?

- A Ireland
- B Malta
- C Ukraine
- D United Kingdom

Your answer

[1]

25



In each of the cases on page 13, firms are operating as profit maximisers. Which would cause the response on an industry level indicated in the diagram above?

<p><b>A</b></p>	
<p><b>B</b></p>	
<p><b>C</b></p>	
<p><b>D</b></p>	

Your answer

[1]

14

- 26 The table below illustrates the utility derived from consuming lettuce. What is the marginal utility of consuming the fourth lettuce?

Quantity	Total Utility (Utils)
1	9
2	17
3	23
4	28
5	32
6	35
7	37

- A 4  
B 5  
C 6  
D 7

Your answer

[1]

- 27 Why might the ILO (International Labour Organisation) unemployment rate overestimate the level of unemployment there is in an economy?

- A Sampling errors may exist in the data  
B Some individuals may be claiming benefits but are not actually willing to work  
C The economically inactive are included  
D There may be underemployment where part-time workers cannot find full-time jobs

Your answer

[1]

15

**28** In the 2017 UK General Election, the Conservative Party proposed a reform to social care that would involve individuals whose combined savings and property are valued at more than £100 000 paying for the cost of care they incur in their old age. The likely impact of this would be to reduce the amount of inheritance passed on to future generations. Which of the following would be affected by this in the long run?

- A** Both income and wealth inequality
- B** Income inequality only
- C** Neither income or wealth inequality
- D** Wealth inequality only

Your answer

[1]

**29** Which of the following explains price elasticity of demand along a straight line demand curve?

- A** Demand becomes more price elastic as the price increases
- B** Demand becomes more price inelastic as the price increases
- C** PED is constant as the price increases
- D** PED is unit elastic as the price increases

Your answer

[1]

16

- 30 A small country engages in the international trade of seven goods. Using the information below, calculate the terms of trade.

Good	Price of good	Proportion of total export revenue
<b>Exports</b>		
A	£22	25%
B	£5	25%
C	£2	30%
D	50p	20%
<b>Imports</b>		
E	£7	10%
F	£2	70%
G	£1	20%

A 0.31

B 0.45

C 2.21

D 3.24

Your answer

[1]



## SECTION B

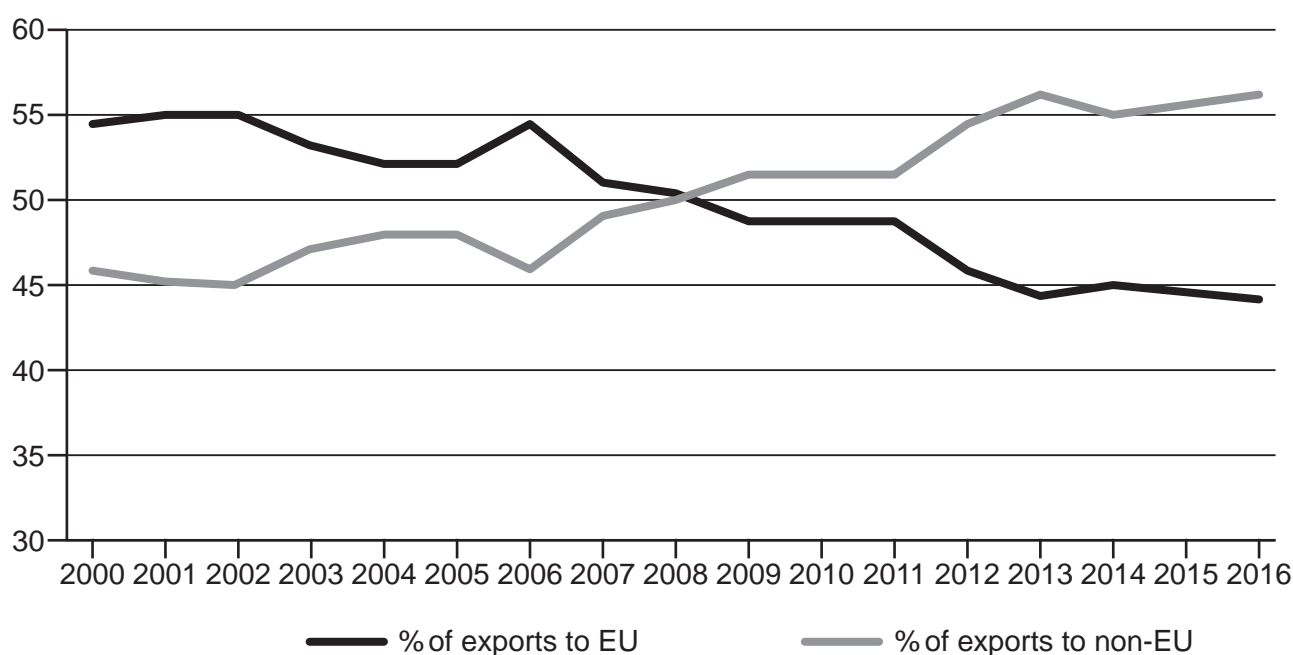
Read the following extracts and answer **all** questions which follow.

**Extract 1 – European Union membership & international trade**

On 23rd June 2016, 51.9% of voters in the United Kingdom voted in favour of leaving the European Union. The build up to the referendum was characterised by fierce arguments on both sides about the economic impact of European Union membership, with the debate continuing after the vote as the UK government sought to reach an agreed position on how to negotiate the country's withdrawal from the multilateral organisation it joined in 1973.

One of the biggest areas of disagreement was over the impact Brexit would have on the UK's balance of payments. Membership of the EU gives access to the Single Market, the world's biggest free trade area that enables UK firms to export goods tariff free to other EU member states. Trade with countries outside of the EU is determined by a system of common external tariffs, where non-EU firms have to pay a tariff in order to sell into the Single Market with EU firms usually charged a reciprocal tariff to sell to countries outside of the EU. The destination of the UK's exports is outlined in Fig. 1.1.

**Fig. 1.1 – Destination of UK Exports**

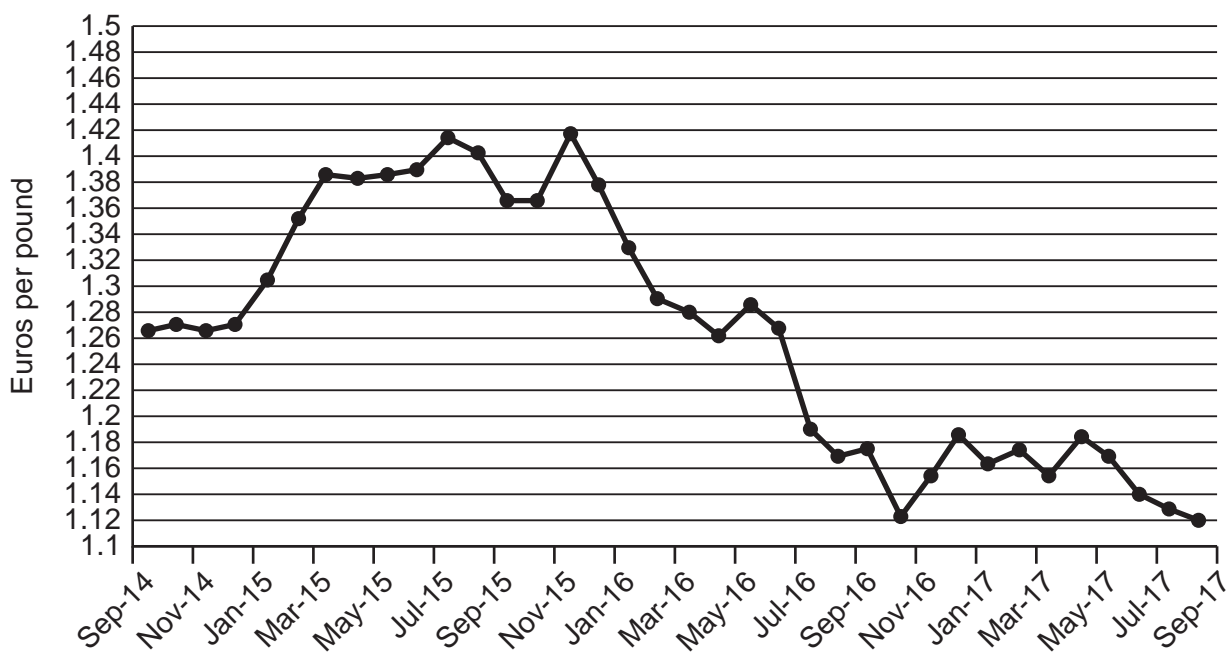


Many economists in favour of remaining in the EU argued that Brexit would fundamentally damage the competitiveness of UK firms, as leaving the Single Market would result in a range of tariff and non-tariff barriers being imposed on UK firms exporting to EU countries. Those in favour of leaving the EU said that this would be outweighed by the gains that would come from negotiating free trade deals with non-EU countries, which would be easier to do once the UK left the trading bloc.

In July 2017, the US government indicated it would be interested in reaching a free trade agreement with the UK. This could have a significant impact on the market for beef. In 2016, approximately two thirds of UK beef imports came from Ireland with no beef imported from the US, despite US beef being priced significantly lower on world markets (approximately £2000 a tonne compared to £3400 for Irish beef). Those in favour of Brexit argue this is a harmful example of trade diversion, with Irish beef being artificially competitive as a result of tariffs exceeding 50% being imposed by the EU on US beef imports. A free trade deal with the US could result in a large proportion of beef imports coming from the US at the expense of Irish producers.

The value of the pound is a crucial determinant of the international competitiveness of UK firms. Fig. 1.2 illustrates the impact the vote to leave the EU had on the exchange rate.

**Fig. 1.2 – Sterling-Euro Exchange Rate 2014–2017**

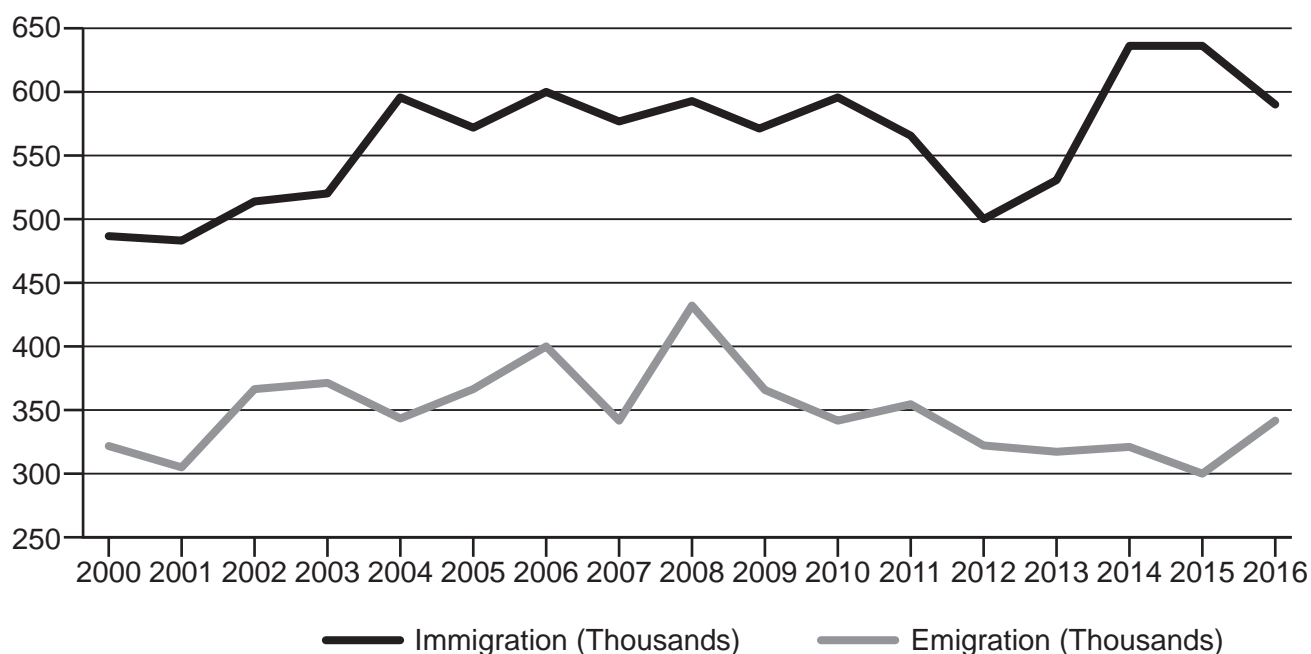


## Extract 2 – European Union membership & migration

The 'four freedoms' of the European Union – the freedom of movement of goods, people, services and capital across borders – are a core element of EU membership. In the UK, it was disagreement over the relative merits of the most contentious of these – the free movement of people – that arguably led to the country voting to leave the EU.

The freedom of movement came under sharper focus in 2004, when the EU experienced its largest ever expansion that saw ten new member states join and the population increase by more than 100 million citizens. This resulted in a large influx of immigrants into the UK from individuals attracted by the relatively high wages on offer, with nearly a million workers coming from Poland alone in their first ten years of EU membership. The further expansion of the EU in 2007 to include the low wage countries Bulgaria and Romania fuelled concerns that immigration would spiral in the UK, with much debate over the potential impact of this. Fig. 2.1 illustrates how migration in the UK changed during this period.

**Fig. 2.1 – UK Migration 2000–2016**



One of the main benefits Leave campaigners argued would result from leaving the European Union was the ability this would give the UK government to take control of its borders. They argued that rising immigration had put increasing pressure on public services, pushed house prices up and depressed the wages and employment opportunities for low skilled workers.

However, many economists argued the end of free movement presented many risks to the prosperity of the UK economy. Empirical evidence suggests that EU immigrants tend to be younger than the native population and more likely to work and pay taxes than claim benefits, in doing so addressing the problems an ageing population could cause the economy. Moreover, a number of industries such as healthcare and construction are reliant on immigrants to fill skills shortages, with immigration allowing the UK to benefit from greater labour market flexibility.

### Extract 3 – The Paris Climate Accord

Although enacting the process of leaving the European Union, the UK remained committed to participating in multilateral action of a different kind – combating climate change. It is estimated that, left untackled, climate change would cause around 60 000 deaths globally by 2030 and 260 000 deaths by 2100.

In April 2016, the most ambitious global climate change agreement was reached in Paris, with 195 countries committing to take action to hold the average global temperature to well below 2 degrees centigrade above pre-industrial levels by the end of the century. Each country made their own voluntary pledges to reduce emissions to a specific level by 2020, after which each nation's targets will be re-evaluated.

Nicaragua, one of only two countries that did not sign up to the accord, boycotted it in protest about its unambitious goals. The accord experienced its biggest setback in June 2017, when the US indicated it would be withdrawing from the agreement. Supporters, however, argued that this was a step towards a unified front against climate change, providing a loose-fitting framework that got the backing of some of the world's biggest polluters whilst leaving each country to develop their own climate change strategies.

One such strategy adopted in parts of the world is a carbon trading scheme. The biggest of these is the European Union's emissions trading scheme (ETS), whilst some countries outside of the EU have adopted more localised schemes. Fig. 3.1 outlines the participation of the world's biggest polluters in the Paris Accord and tradable pollution permit schemes.

**Fig. 3.1 – Global carbon emissions & climate change policy participation**

Rank	Country	% of global carbon emissions	Paris Accord?	Carbon Trading Scheme?
1	China	29.51	Yes	Limited
2	United States	14.34	No	Limited
3	India	6.81	Yes	No
4	Russia	4.88	Yes	No
5	Japan	3.47	Yes	Limited
6	Germany	2.16	Yes	Yes
7	Iran	1.76	Yes	No
8	South Korea	1.71	Yes	Yes
9	Canada	1.54	Yes	No
10	Saudi Arabia	1.40	Yes	No
<hr/>				
	<i>European Union</i>	9.62	Yes	Yes

In July 2017, the UK government announced a plan to outlaw all new diesel and petrol cars by 2040, in doing so eliminating one of the biggest causes of carbon emissions. This is an ambitious target given the electric car market accounted for just 1% of UK market share in 2016. There is though inspiration to be found from Norway, where more than a third of new car sales in 2016 were electric as a result of heavy government subsidies. The UK government has earmarked £900 million to support the electric car industry, with BMW announcing in July 2017 their intention to build the new e-Mini at a UK car plant. The hope is that such subsidies will go a long way in making electric cars price competitive enough to quicken the move away from traditional diesel and petrol cars.

31 Using Fig. 1.1 and the information in Extract 1, explain whether the UK's balance of payments is likely to be harmed as a result of the UK leaving the European Single Market.

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32 Some economists argued membership of the European Single Market caused a number of trade distortions, including in the beef market, where Irish firms had an artificial advantage over US firms as a result of being able to export to the UK tariff-free.

Explain, using an appropriate diagram and the information in Extract 1, the impact on the UK of a free trade deal that would enable US firms to export beef to the UK tariff-free.

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**ADDITIONAL ANSWER SPACE**

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

A large rectangular area with a vertical line on the left side and horizontal dotted lines across the rest of the page, intended for writing answers.



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