



Oxford Cambridge and RSA

Thursday 15 October 2020 – Afternoon

A Level Economics

H460/03 Themes in economics

Time allowed: 2 hours



You can 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)

Last name

INSTRUCTIONS

- Use black ink. You can use an HB pencil, but only for graphs and diagrams.
- Write your answer to each question in the space provided. If you need extra space use the lined pages at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions.

INFORMATION

- The total mark for this paper is **80**.
- The marks for each question are shown in brackets [].
- Quality of extended response will be assessed in questions marked with an asterisk (*).
- This document has **32** pages.

ADVICE

- Read each question carefully before you start your answer.

2
SECTION A

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

Write your answer for each question in the box provided.

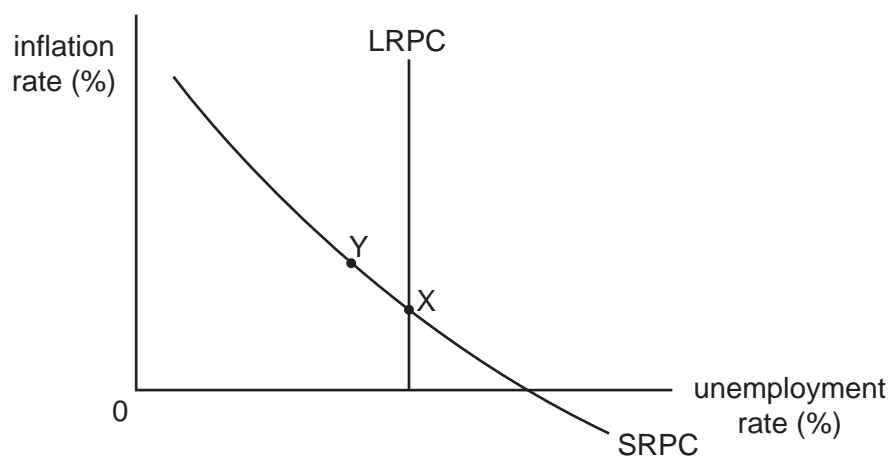
1 What is the short run?

- A** A period of time in which all factors of production are fixed
- B** A period of time in which all factors of production are variable
- C** A period of time in which at least one factor of production is fixed
- D** A period of time in which at least one factor of production is variable

Your answer

[1]

2 What is the most likely explanation of the movement from X to Y in the diagram below?



- A** A decrease in the natural rate of unemployment
- B** An adjustment in inflationary expectations
- C** Contractionary fiscal policy
- D** Money illusion

Your answer

[1]

3

3 A change in the price of good X causes the demand for good Y to increase by 4.5%. The cross elasticity of demand between the two goods is 1.7. If the price of good X is now £2.50, what was its original price?

A £2.32

B £2.44

C £2.49

D £2.57

Your answer

[1]

4 What would cause the exchange rate to depreciate?

A An increase in domestic incomes

B An increase in incomes abroad

C Export subsidies

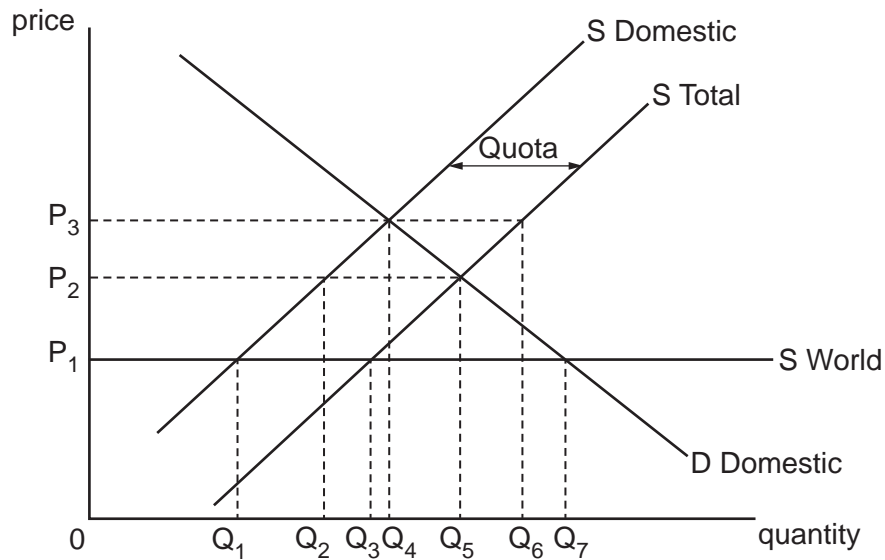
D Technological advancement of domestic goods

Your answer

[1]

4

- 5 The diagram below shows the market for textiles in the US. Suppose the market was initially operating at a price of P_1 , when no restrictions on trade were in place. What is the new market equilibrium as a result of the US imposing a quota on textiles imports?



| Option | Price | Domestic Production | Quantity Consumed |
|--------|-------|---------------------|-------------------|
| A | P_1 | Q_1 | Q_3 |
| B | P_2 | Q_2 | Q_5 |
| C | P_2 | Q_5 | Q_5 |
| D | P_3 | Q_4 | Q_6 |

Your answer

[1]

- 6 What is the reward to labour as a factor of production?

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

Your answer

[1]

5

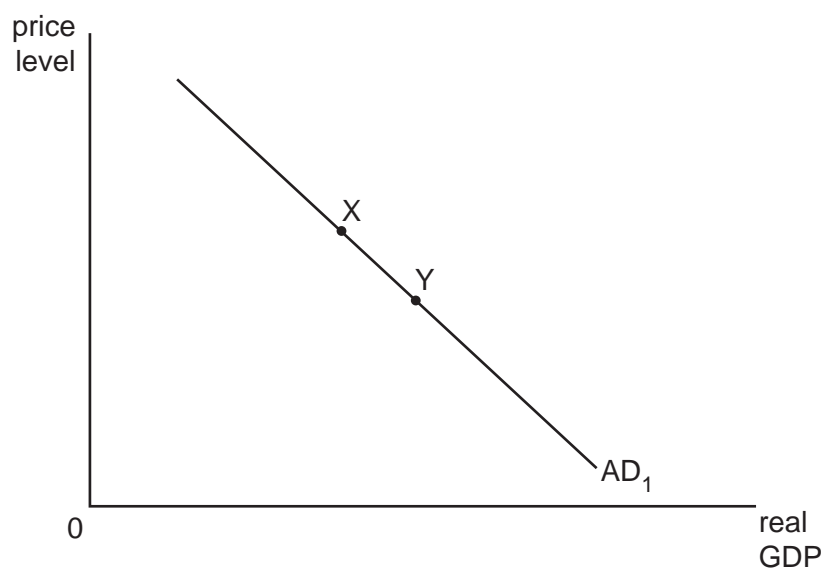
- 7 A resident of London being protected by Trident, the UK's nuclear defence system, does not affect a resident of Sunderland's ability to be protected by Trident. Which feature of a public good is described here?

- A Non-excludability
- B Non-rejectability
- C Non-rivalry
- D Zero opportunity cost

Your answer

[1]

- 8 What explains a movement from X to Y in the diagram below?



- A A decrease in corporation tax rates
- B An exchange rate depreciation
- C An increase in interest rates
- D An increase in the real value of households' wealth

Your answer

[1]

6

9 What is most likely to cause a decrease in wealth inequality?

- A A decrease in capital gains tax
- B A decrease in income inequality
- C An increase in house prices
- D An increase in the tax-free inheritance allowance

Your answer

[1]

10 What is most likely to lead to allocative efficiency being achieved in an industry that is a natural monopoly?

- A Collusion
- B Competition policy
- C Information provision
- D Regulation

Your answer

[1]

11 What is an example of a supply side policy measure?

- A Imposing a tariff
- B Increasing interest rates
- C Privatisation
- D Quantitative easing

Your answer

[1]

12 What is the impact of the Marshall-Lerner condition holding?

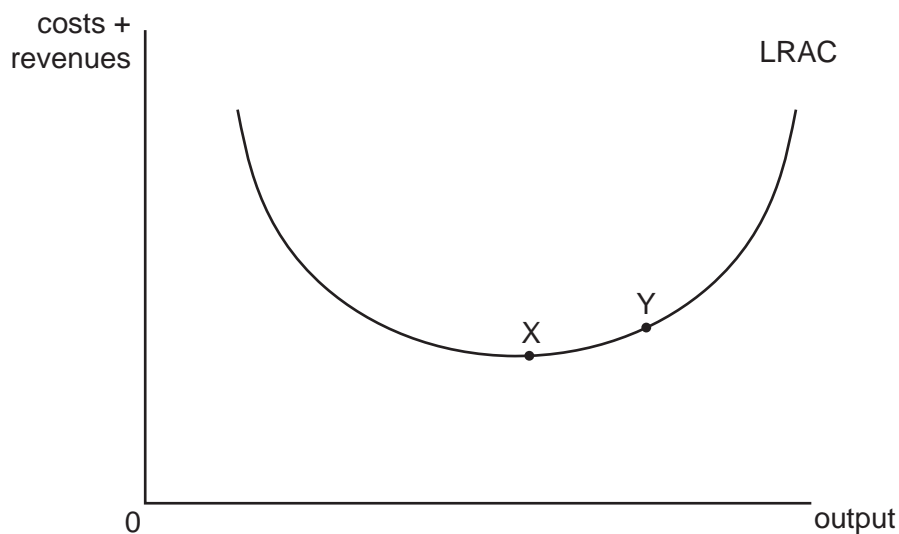
- A An exchange rate appreciation will only reduce a current account deficit in the long run
- B An exchange rate appreciation will reduce a current account deficit
- C An exchange rate depreciation will only reduce a current account deficit in the long run
- D An exchange rate depreciation will reduce a current account deficit

Your answer

[1]

7

13 What is the most likely cause of a movement from X to Y in the diagram below?



- A A rival firm entering the market increases the cost of inputs into the production process
- B Organisational slack increases as a result of a firm developing monopoly power
- C The growth of the industry results in more individuals undertaking relevant education or training
- D Workers become less motivated after the firm they work for takes control of another firm in the industry

Your answer

[1]

14 In response to a global recession, Central Banks in ten closely linked economies reduce interest rates by an average of 1.5%. What is the likely impact on one of these economies where its Central Bank decided to reduce interest rates by 0.5%?

- A Hot money will flow in, causing the exchange rate to appreciate
- B Hot money will flow in, causing the exchange rate to depreciate
- C Hot money will flow out, causing the exchange rate to appreciate
- D Hot money will flow out, causing the exchange rate to depreciate

Your answer

[1]

8

15 What efficiencies occur in the model of perfect competition in the long run?

- A Allocative and dynamic efficiency
- B Allocative, dynamic and productive efficiency
- C Allocative, productive and X efficiency
- D Allocative, dynamic, productive and X efficiency

Your answer

[1]

16 What is classed as narrow money?

- A Commercial banks' deposits at the Bank of England
- B Government bonds with a maturity of less than five years
- C Money held in savings accounts
- D Retail deposits held current accounts

Your answer

[1]

17 What would cause unit labour costs to decrease?

- A A decrease in corporation tax
- B An increase in output
- C An increase in the National Living Wage
- D An increase in the quality of capital equipment

Your answer

[1]

18 Use the information below to calculate the size of the national income multiplier.

| | |
|-------------------------------|------|
| Gini coefficient | 0.71 |
| Marginal Propensity to Import | 0.11 |
| Marginal Propensity to Save | 0.23 |
| Marginal Rate of Taxation | 0.17 |
| PED for exports and imports | 0.42 |

A 0.51

B 1.64

C 1.96

D 2.94

Your answer

[1]

19 What is likely to be required in an economy where money does not exist?

A A barter system

B A central bank

C Price controls

D Protectionism

Your answer

[1]

20 How does comparative advantage explain why the UK imports cars from Germany?

A German car manufacturers can export tariff free to the UK

B Germany can produce cars at a lower opportunity cost than the UK

C Germany can produce cars more efficiently at a lower cost of production than the UK

D Germany is located closer to the UK than US car manufacturers

Your answer

[1]

10

21 When will supply side policy be ineffective?

- A The marginal propensity to save is high
- B The real interest rate is close to zero
- C There is a large negative output gap
- D There is significant demand-pull inflation

Your answer

[1]

22 Using the table below, what has happened to the three firm market concentration ratio in the global mobile telephone market between 2010 and 2019?

| Firm | 2010 Market Share (%) | 2019 Market Share (%) |
|---------|-----------------------|-----------------------|
| Apple | 33.2 | 24.8 |
| Huawei | 0 | 10.6 |
| Nokia | 37.6 | 0.4 |
| Others | 18.8 | 32.9 |
| Samsung | 2.4 | 31.3 |

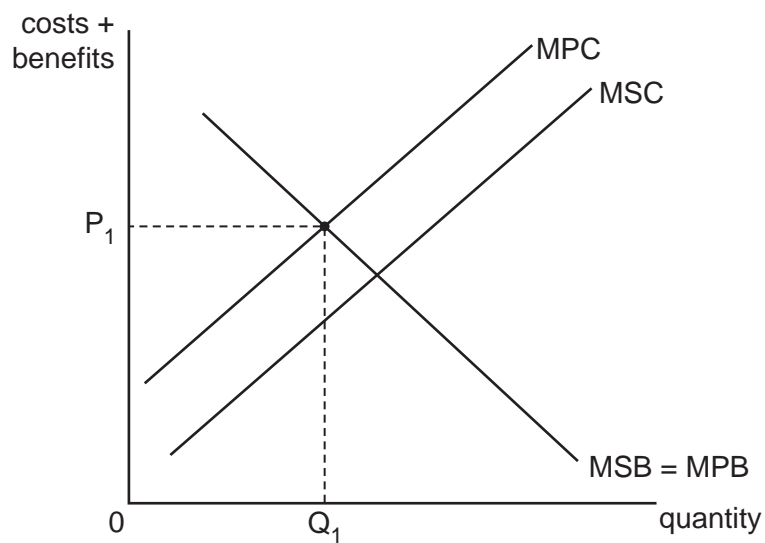
- A Decreased by 0.6%
- B Decreased by 6.1%
- C Decreased by 6.5%
- D Decreased by 16.7%

Your answer

[1]

11

23 What type of inefficiency is illustrated at (Q_1, P_1) in the diagram below?



- A Allocative
- B Dynamic
- C Productive
- D X

Your answer

[1]

24 What is a component of the Human Development Index?

- A Air quality
- B GDP per capita
- C Life expectancy
- D Proportion of population with tertiary education

Your answer

[1]

12

25 What could cause wages in an occupation to be lower than in other occupations?

- A A long training period is required before starting the job
- B A high proportion of workers in the occupation are members of a trade union
- C Wages take up a high proportion of total costs
- D Workers have a high marginal revenue product of labour

Your answer

[1]

26 In 2014, researchers found that up to a third of women were not taking folic acid supplements in the first 12 weeks of their pregnancy. In response the government increased its efforts to provide information to women about the need for folic acid to aid the healthy development of their baby's spine. On the basis of this information, what type of good is folic acid?

- A A demerit good
- B A good with negative externalities of consumption
- C A good with positive externalities of consumption
- D A merit good

Your answer

[1]

27 Using the table below, what was the inflation rate in 2017?

| Year | Consumer Price Index |
|------|----------------------|
| 2014 | 98.2 |
| 2015 | 100.0 |
| 2016 | 103.4 |
| 2017 | 101.9 |
| 2018 | 103.6 |

- A -1.50%
- B -1.45%
- C 1.47%
- D 1.90%

Your answer

[1]

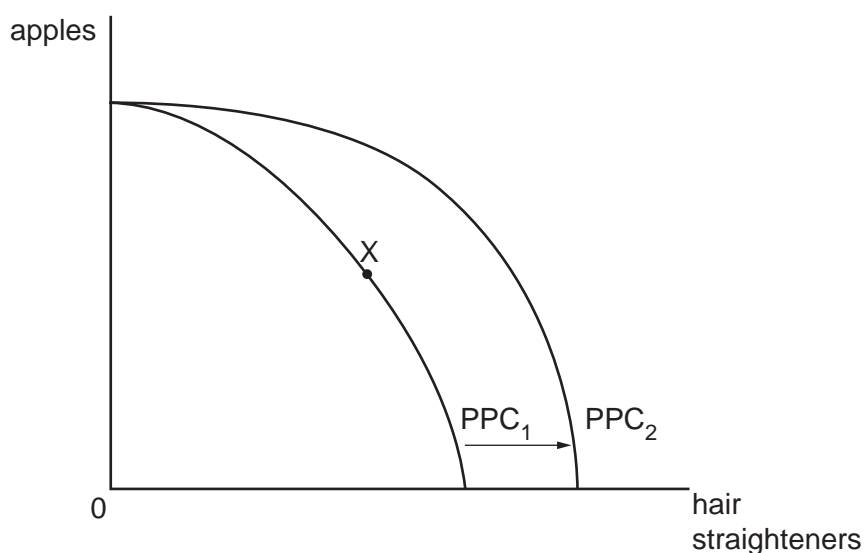
13

- 28 Wood is used to make paper and furniture, amongst other things. What type of demand is this?
- A Competitive demand
 - B Composite demand
 - C Joint demand
 - D Market demand

Your answer

[1]

- 29 An economy in which apples and hair straighteners are produced is initially operating at point X. If the production possibility curve shifts from PPC_1 to PPC_2 , which of the statements identifies the change in the production possibilities?



- A It is not possible to increase the production of either apples or hair straighteners
- B It is only possible to increase the production of apples
- C It is only possible to increase the production of hair straighteners
- D It is possible to increase the production of both apples and hair straighteners

Your answer

[1]

14

30 In 2008, Northern Rock was taken into state ownership, following a crisis in which customers queued outside branches in large numbers to withdraw their savings concerned they may not get their money back. What type of financial regulation would have reduced the risk of this?

- A** Competition policy
- B** Quantitative easing
- C** Requiring banks to hold a higher proportion of deposits as liquid assets
- D** Reducing the central bank rate of interest

Your answer

[1]

SECTION B

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

Extract 1 – An end to austerity?

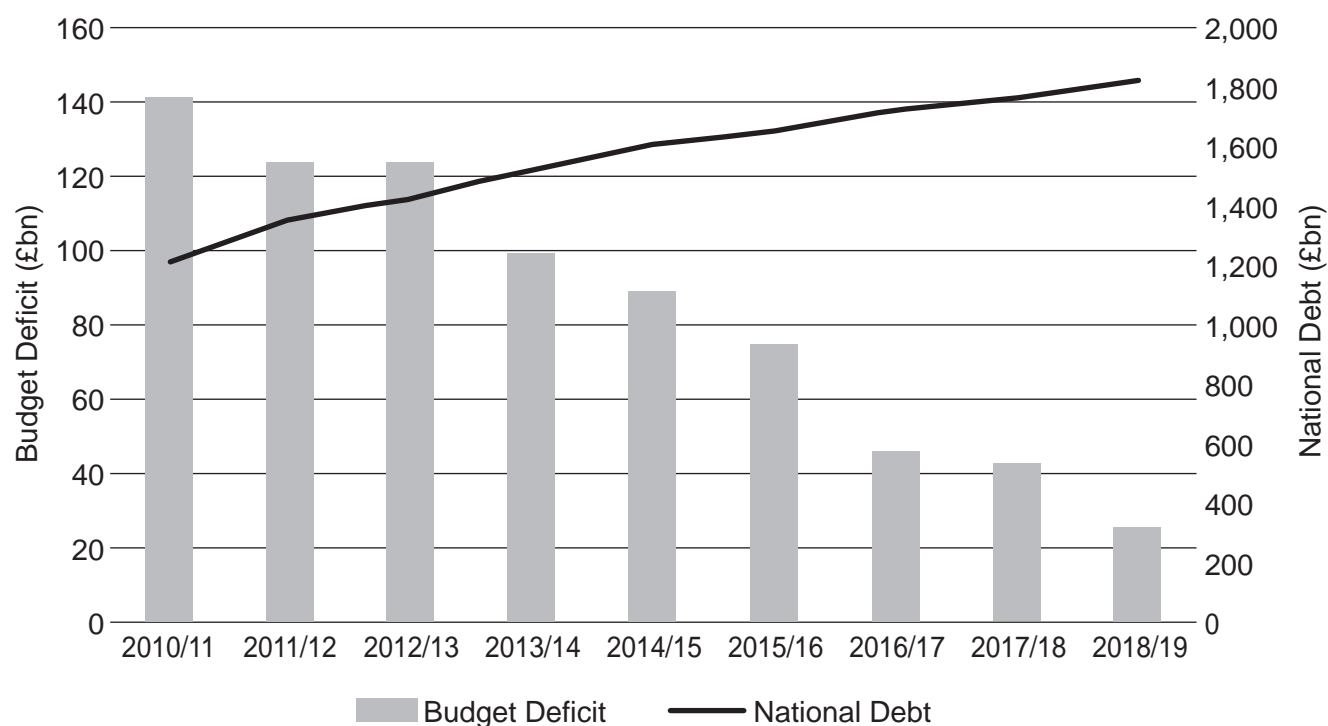
The commitments made by the UK's main political parties in the 2019 General Election campaign marked an end to the austerity economics that had dominated macroeconomic policy for the previous decade.

Following the global financial crisis in 2008, many of the world's advanced economies introduced a range of stimulus measures designed to promote economic recovery and end a period of recession. However, as the Greek economy began to collapse at the end of 2009, in part as a result of a national debt/GDP ratio of more than 120%, policy makers around the world began to fear their own economies were at risk because of unsustainably high levels of borrowing. With the UK's national debt/GDP ratio standing at 69% and forecast to increase to over 100% in the coming years, the Conservative-Liberal coalition came to power in 2010 to eliminate the budget deficit by implementing austerity – a deficit reduction programme focused on significant reductions in public spending and increases in tax revenue. The policy was seen to be crucial in promoting future economic growth and stability. Fig. 1.1 illustrates the impact austerity had on the size of the budget deficit and national debt.

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Fig. 1.1 – UK Government's Budget Deficit & National Debt 2010–2019



However, in the 2019 General Election campaign both the Conservative government and its main challenger, the Labour Party, made significant public spending commitments that represented a significant shift away from austerity. The Conservatives promised an £11bn increase in public expenditure by 2024, including pledges to increase expenditure on the NHS, police and schools, whilst also committing to tax cuts for low paid workers. These plans were modest in comparison to the spending commitments by Labour, who pledged to increase public expenditure by £153bn. Individual policies included a 5% pay rise for public sector workers, a green transformation fund to spend on projects such as insulating 27 million homes, compensating the 'WASPI' (Women

15

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Against State Pension Inequality) women who had seen an unexpected cut to their state pension entitlements as a result of the state pension age for women being increased to match that for men and the building of social housing. 25

Both parties moved away from targeting to eliminate the overall budget deficit and instead sought to make a distinction between current and capital expenditure, arguing that achieving a current budget balance should be the new target. Labour committed to meeting this target within five years whilst the Conservatives aimed to achieve it in three.

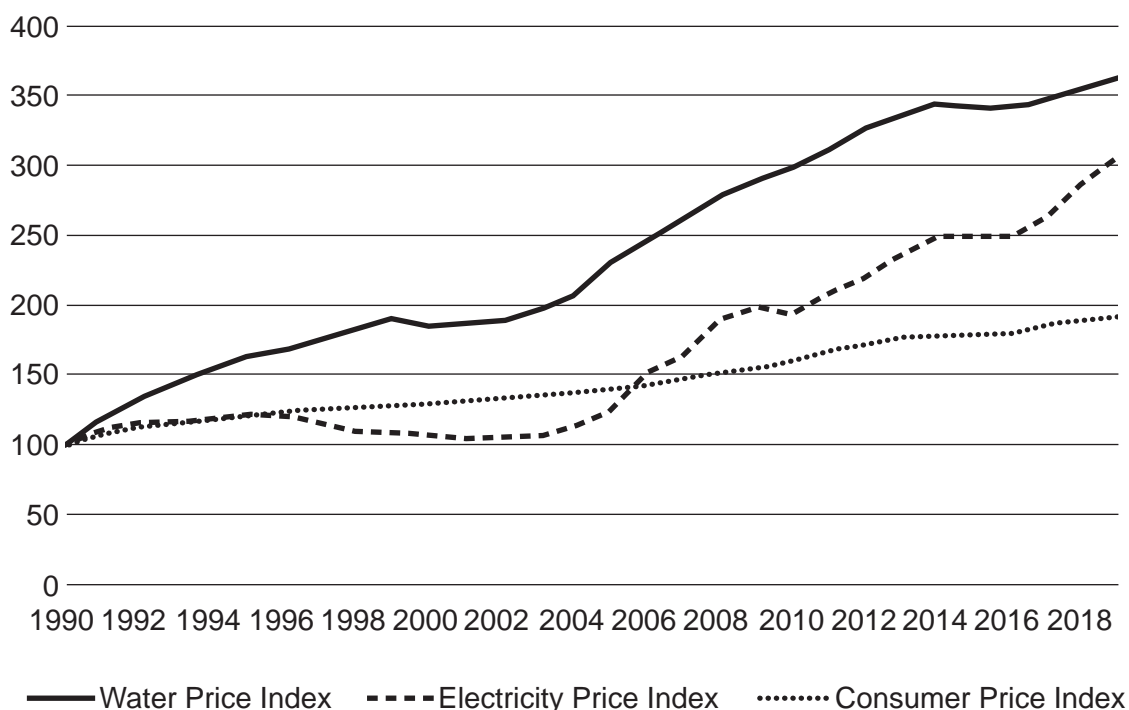
Whilst the victory of the Conservative Party in the election meant the likely change in direction of macroeconomic policy was not as sharp as it might otherwise have been, it is undoubtedly the case that, after almost a decade of policy designed primarily to eliminate the budget deficit, government borrowing was set to increase. Whilst some economists point to low costs of borrowing for the government and the relatively low national debt/GDP ratio in the UK in comparison to many other developed economies as evidence that increased government spending can be justified providing it is on capital expenditure, others argue that this risks the hard-earned reputation of fiscal responsibility being destroyed. 30
35

Extract 2 – Ownership of public utilities

Amongst the most eye-catching proposals in the Labour Party's manifesto was its commitment to bringing a range of public utilities under government control. The proposal was to nationalise a range of key industries that had been privatised under the Conservative government in the 1980s and early 1990s, which sparked fierce debate over whether the interests of consumers would be best served by these companies operating in the private or public sector. 5

Two such industries are the water and electricity industry, which were privatised in 1989 and 1990 respectively. The government at the time saw privatisation as essential to boost the performance of the UK economy, arguing the discipline of the marketplace would create competition that would drive efficiency, raise revenue for the government and ultimately bring prices down for consumers. However, thirty years on, some argue privatisation has failed to achieve its stated aims. Fig. 2.1 10 illustrates what has happened to the price of water and electricity since privatisation.

Fig. 2.1 – Electricity, Water and Consumer Price Index 1990–2018
(Base Year 1990 = 100)



The Labour Party also argued that bringing these utilities into the public sector would enable the significant investment to occur that private firms had not been incentivised to undertake, pointing to the slow renewal of London's water mains by Thames Water and the patchy investment in universal national high-speed broadband coverage by BT as evidence of this. They suggested that the different incentives and objectives that exist between public sector and private sector firms provided a strong case for nationalisation of these private sector monopolies. 15

The Conservative government however argued the £170bn bill that would be incurred from nationalising the public utilities could not be justified, and that both efficiency and consumer welfare would be better served from these industries remaining in the private sector but with tighter regulation, such as the energy price caps introduced at the start of 2019. 20

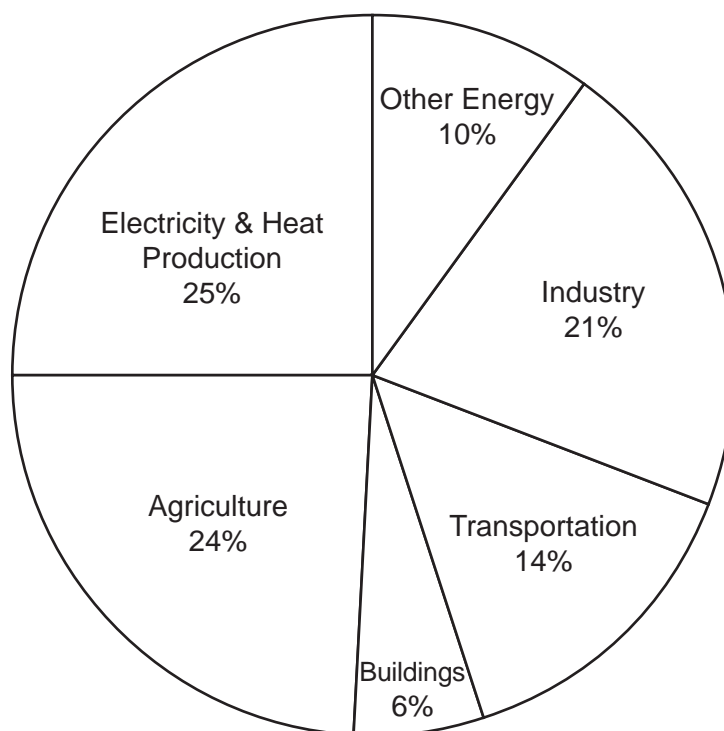
Extract 3 – Do we need to stop flying to save the planet?

A rare area of agreement between the political parties in the General Election campaign was the need to take action to tackle climate change. Since 1970, global CO₂ emissions have increased by around 90% and the resultant impact of global warming, be it rising sea levels or more intense heatwaves, is becoming increasingly damaging to communities around the world.

In June 2019, the UK became the first major nation to pledge to have net zero carbon emissions by 2050. This was praised by environmentalists who hoped this would encourage other countries to follow the UK's lead by making similar commitments. The commitment was maintained by the Conservative Party in the 2019 General Election whilst the Labour Party went further, setting a target of net zero carbon emissions by 2030. 5

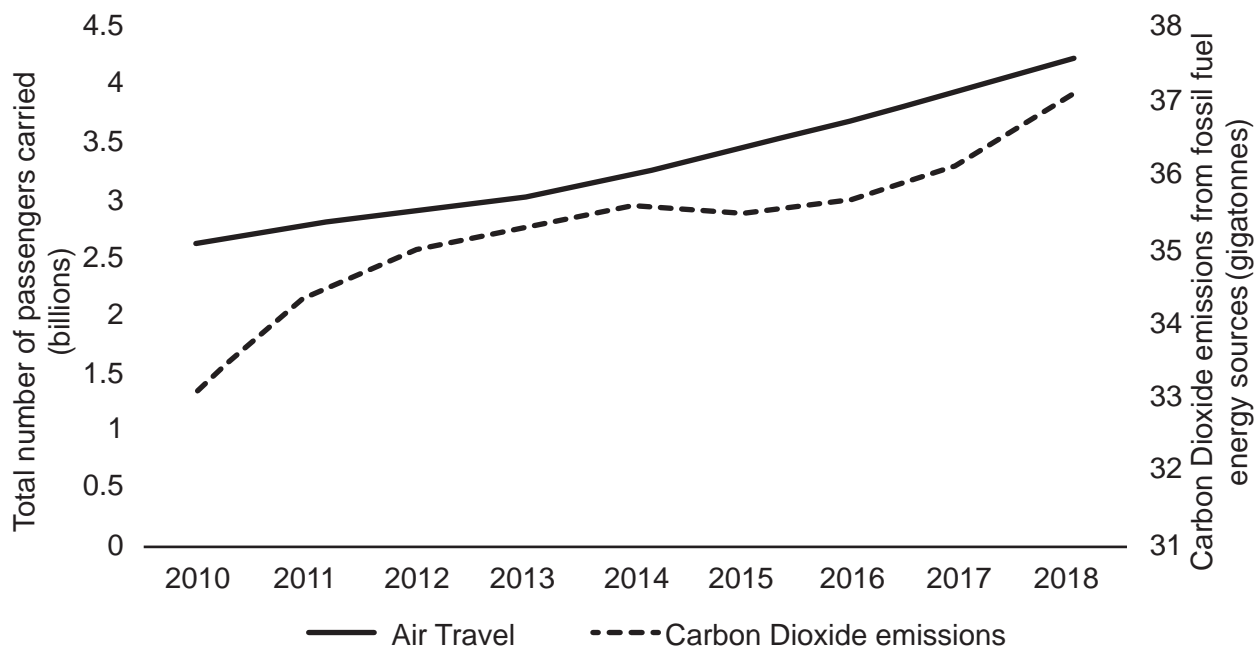
In order for these targets to be achieved, significant change will need to be seen in a number of industries. Fig. 3.1 illustrates the causes of fossil fuel emissions by sector. 10

Fig. 3.1 – Fossil fuel emissions by sector



One of the areas most targeted for reducing emissions is the aviation sector. Increasing incomes around the world have significantly increased the demand for air travel, which has particularly harmful impacts on emissions – a journey by plane generates more than twenty times the amount of CO₂ emissions compared to travelling the same distance by train. The relationship between passenger journeys by air and carbon emissions is shown in Fig. 3.2. 15

Fig. 3.2 – Air passenger journeys and carbon emissions 2010–2018



A proposal made by some environmental lobbyists is for the government to legislate to limit all individuals to one return flight per year. It is argued this would help reduce the negative externalities associated with air travel and make a substantial contribution to addressing the challenge of climate change. However, business groups remain concerned about the detrimental impact such an action would have on the UK's status as a global centre of financial services, more broadly suggesting it would limit the potential gains from globalisation that are needed to generate future economic growth. Such groups argue such extreme action is not necessary when there remain less damaging alternative policy solutions to reduce global emissions.

20

31 Using Fig. 1.1, explain the relationship between the budget deficit and national debt between 2010 and 2019.

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..... [2]

32 Explain, using an example from Extract 1, what is meant by capital expenditure.

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33* Evaluate, with the use of an appropriate diagram(s), whether ending austerity is likely to result in the government achieving higher levels of economic growth. [15]

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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).

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