

Surname	Centre Number	Candidate Number
First name(s)		2



GCE A LEVEL

A520U10-1



021-A520U10-1



MONDAY, 4 OCTOBER 2021 – MORNING

ECONOMICS – A level component 1

Economic Principles

1 hour 30 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-20	20	
21	3	
22	6	
23	3	
24	4	
25	8	
26	8	
27	8	
Total	60	

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01

ADDITIONAL MATERIALS

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** questions.

Write your answers in the spaces provided in this booklet. If you run out of space, use the additional page(s) at the back of the booklet, taking care to number the question(s) correctly.

INFORMATION FOR CANDIDATES

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

You are reminded of the necessity for good English and orderly presentation in your answers.



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SECTION A

For each question in Section A, write the letter (A, B, C, D or E) that corresponds to your answer in the box provided.

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

1. An increase in which one of the following would, all other things being equal, reduce actual economic growth but raise long run potential economic growth in an economy? [1]

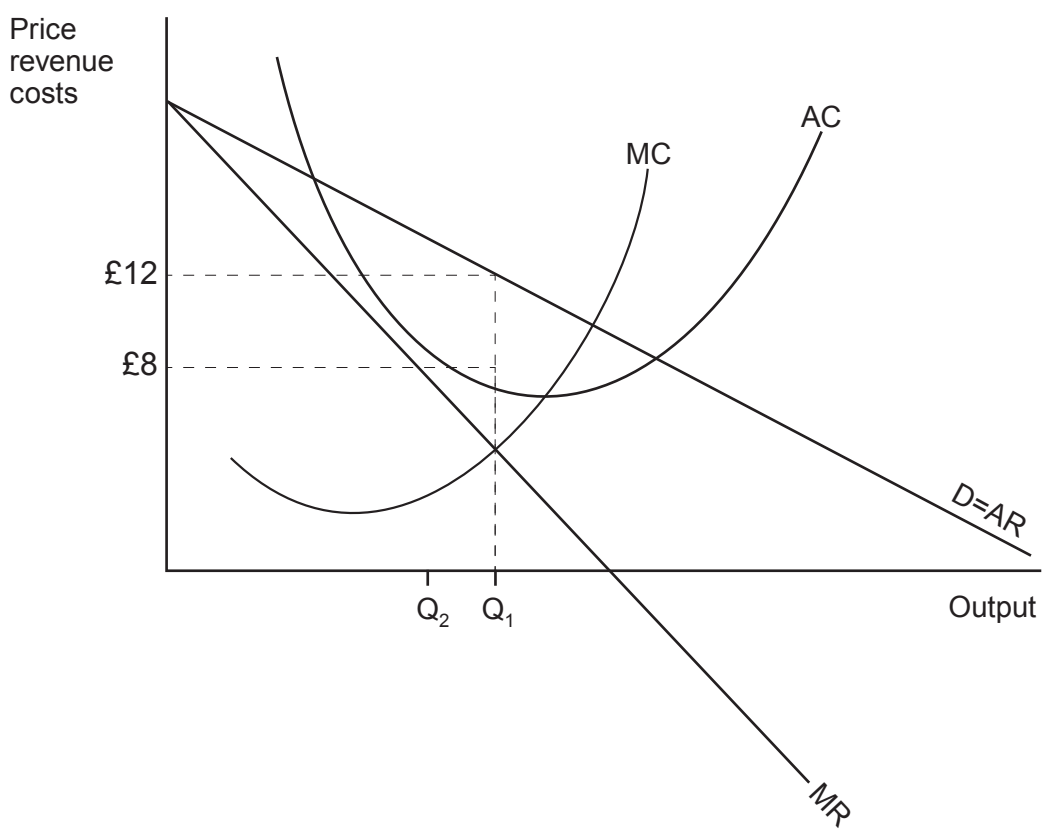
- A** Consumer spending
B Investment spending
C Government current and capital spending
D Export spending
E Import spending on capital goods

2. An absence of private property rights results in a market failure which is linked to a concept entitled 'the tragedy of the commons'. Which pair of characteristics in the table below would cause this market failure? [1]

	Characteristic 1	Characteristic 2
A	Non-diminishability	Excludability
B	Non-diminishability	Rejectability
C	Diminishability	Excludability
D	Diminishability	Non-excludability
E	Non-diminishability	Non-excludability



3. The diagram below shows the cost and revenue curves for a firm which is currently operating at an output of Q_1 .



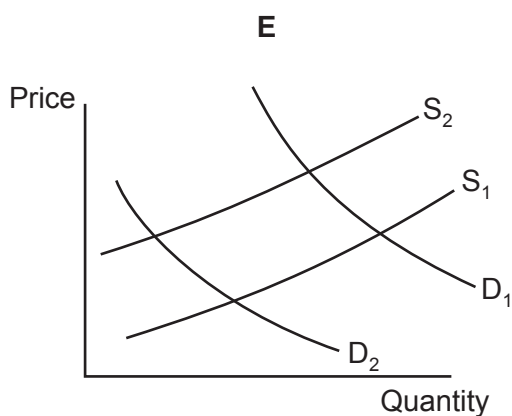
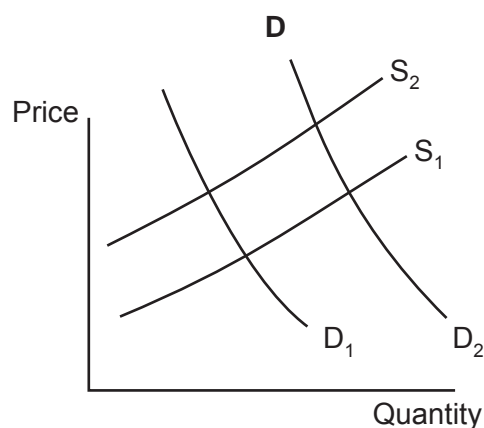
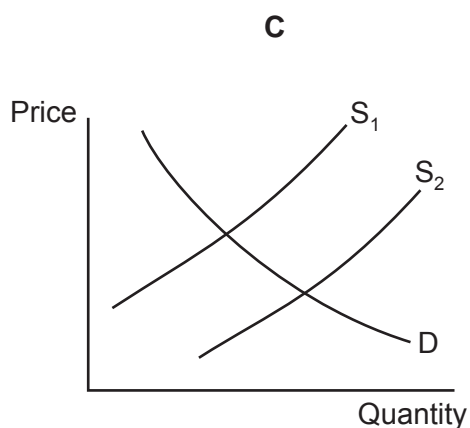
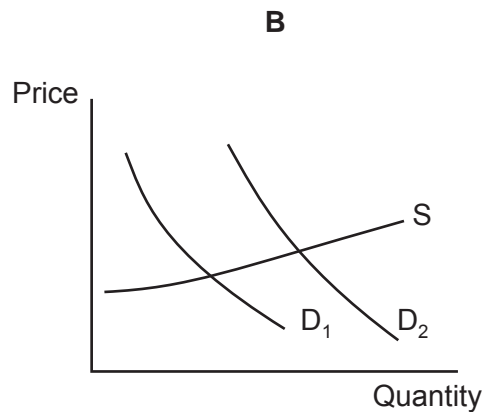
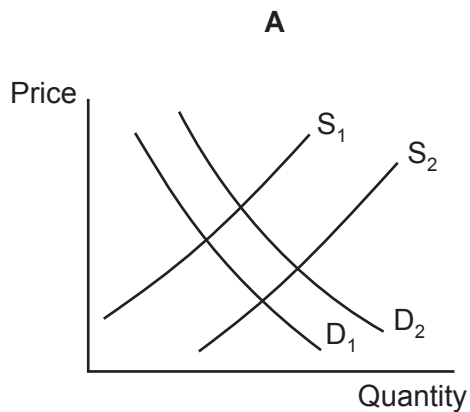
If the firm cut output to Q_2 , what would be the expected impact on total revenue, total cost and total profit? [1]

	Total revenue	Total cost	Total profit
A	Rise	Fall	Rise
B	Fall	Fall	Fall
C	Fall	Rise	Fall
D	Rise	Rise	Unknown
E	Rise	Rise	Rise



4. In 2019 global coal production rose as a result of new mines opening in India, Indonesia and Russia. The effect of this was to drive down the price and increase the quantity demanded.

Which of the following supply and demand diagrams for coal best represents the situation described? [1]



5. The change in the sterling exchange rate in the UK in 2016, as shown in the chart below, was most likely the result of the: [1]

Sterling Exchange Rate Index

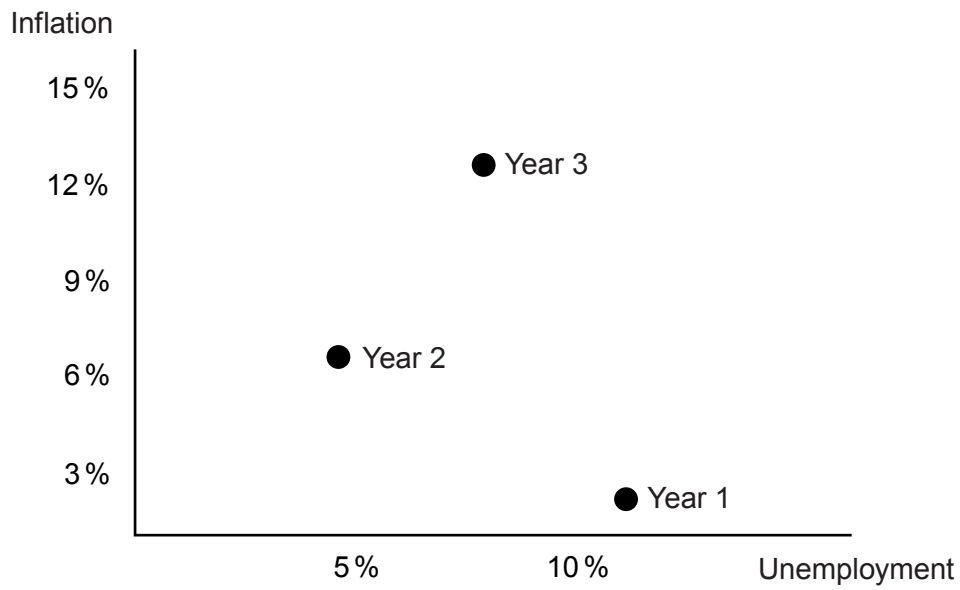
Jan 2005 =100



- A Bursting of the dotcom bubble
- B UK's decision in a referendum to leave the EU
- C Global financial crisis
- D Bank of England's quantitative easing programme
- E UK's decision to leave the Eurozone of the EU



6. The diagram below shows unemployment and inflation rates for an economy in three consecutive years.

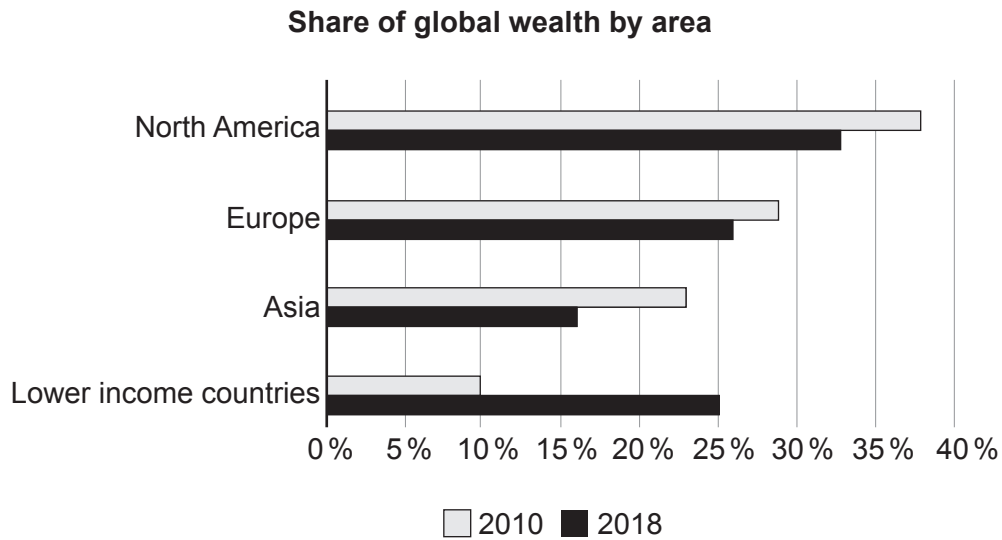


Which of the following sets of explanations best fits the changes in unemployment and inflation shown in the diagram? [1]

	Year 1 to Year 2	Year 2 to Year 3
A	Rapidly rising demand	Supply side shock
B	Sharply falling demand	Supply side shock
C	Supply side shock	Sharply falling demand
D	Supply side shock	Rapidly rising demand
E	Rapidly rising demand	Sharply falling demand



7. The chart below gives information on the proportion of global wealth owned in different areas of the world. Global wealth grew on average by 3.8% per year.



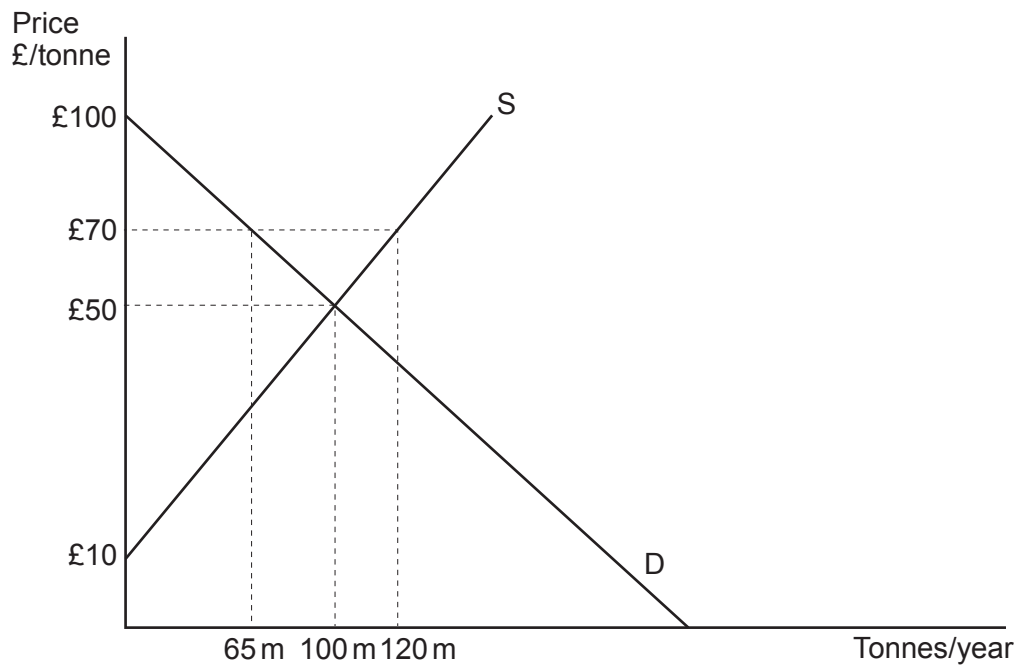
It can be concluded that between 2010 and 2018:

[1]

- A** Wealth in North America fell by more than wealth in Europe
- B** Wealth inequality fell in North America, Europe and Asia
- C** Income inequality fell in North America, Europe and Asia
- D** Wealth grew more quickly in lower income countries than elsewhere
- E** Income per person rose in lower income countries



8. The diagram below shows the supply and demand for an agricultural commodity, with the market initially in equilibrium at a price of £50.



Suppose that the government introduces a minimum price of £70/tonne and agrees to buy any unsold units at that price.

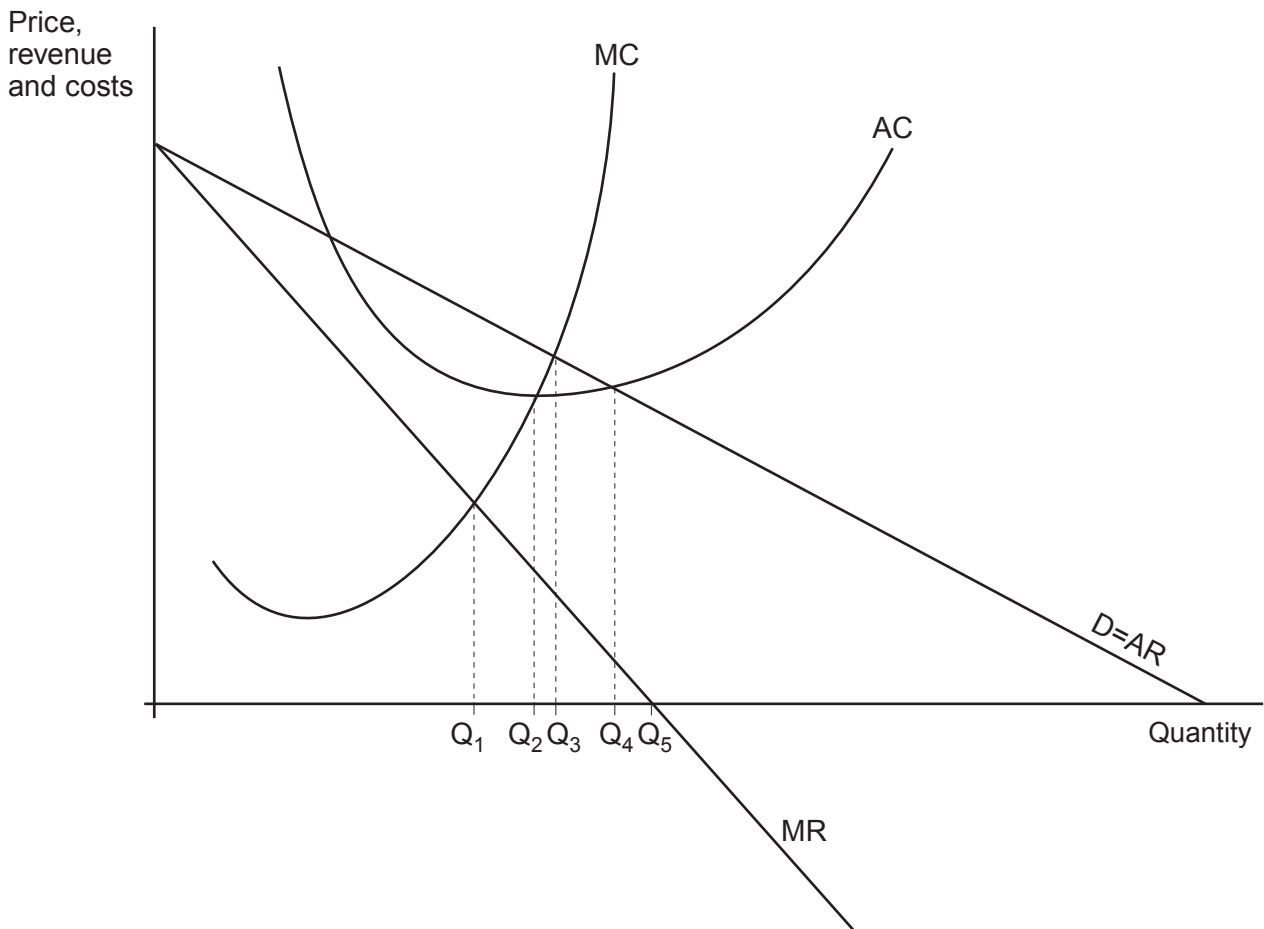
The new level of producer surplus per year will be:

[1]

- A £975 m
- B £2 000 m
- C £3 000 m
- D £3 600 m
- E £8 400 m



9. The diagram below shows a monopoly firm.



Which of the following is true?

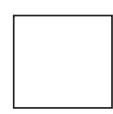
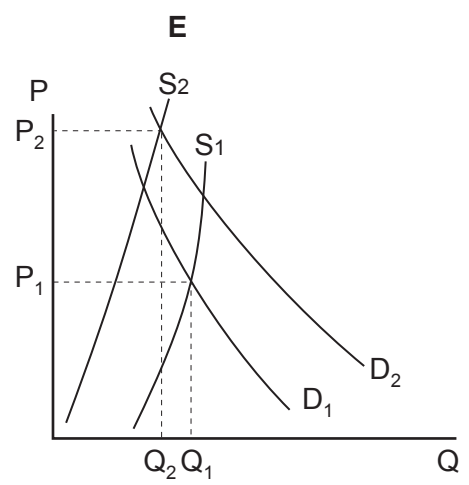
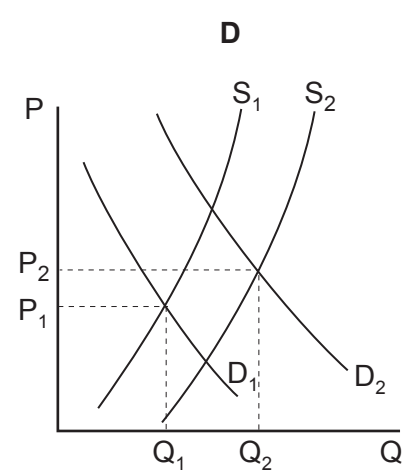
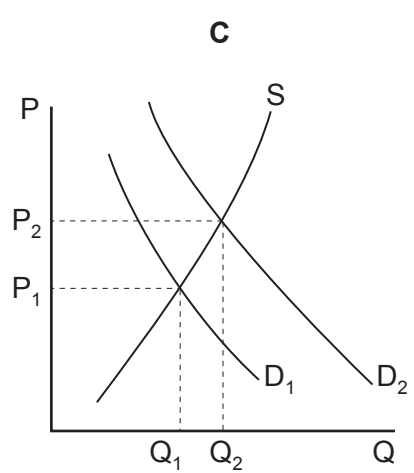
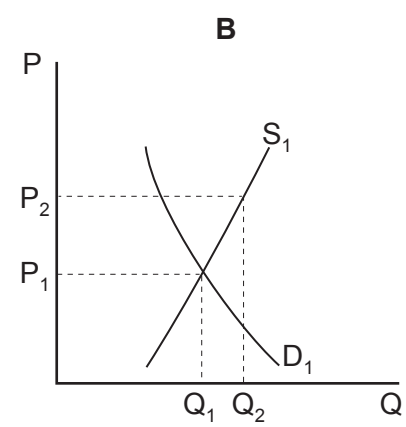
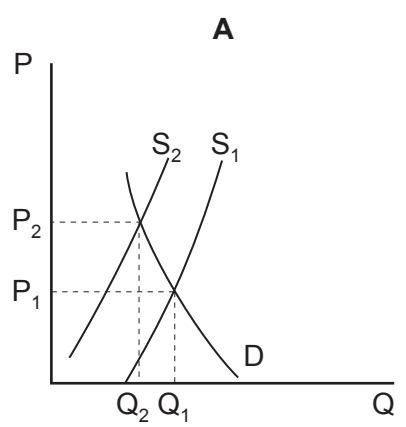
[1]

- A** Demand is price elastic between Q_1 and Q_5
- B** The firm would be productively efficient at Q_3
- C** The firm would maximise profits at Q_2
- D** The firm would earn abnormal profits at Q_4
- E** The firm would be allocatively efficient at Q_1



10. Property prices on the Gold Coast in Australia are expected to rise rapidly over the next few years. Although there is a steady increase of new properties being built every year, population growth and tourism are expected to lead to an even higher number of people wanting to live there.

Which of the following supply and demand diagrams best summarises the situation? [1]



11. The table below gives information on the UK Government's budget/fiscal deficit between 2011 and 2019.

Financial year ending March	2011	2012	2013	2014	2015	2016	2017	2018	2019
Deficit £bn	142.8	125.4	127.0	103.9	94.7	83.7	56.4	56.2	41.5
as % GDP	8.8	7.5	7.4	5.8	5.1	4.3	2.8	2.7	1.9

It can be concluded that:

[1]

- A** GDP was higher in 2011 than in 2019
- B** GDP was about £2 184 tn in 2019
- C** National debt was falling over the period
- D** GDP was about £1 257 tn in 2011
- E** National debt rose by 46.3% over the period



12. The table below gives information on the weights of different categories of goods in the Australian CPI (Consumer Price Index).

Consumer Price Index – Base Period Expenditure Weights

Expenditure Group	Per cent	
	2011	2017
Housing	22.3	22.7
Food and non-alcoholic beverages	16.8	16.1
Recreation and culture	12.6	12.7
Transport	11.6	10.3
Furnishings, household equipment and services	9.1	9.4
Alcohol and tobacco	7.1	7.1
Insurance and financial services	5.1	5.8
Health	5.3	5.4
Education	3.2	4.3
Clothing and footwear	4.0	3.6
Communication	3.1	2.7
Total	100.0	100.0

It can be concluded that:

[1]

- A** Spending on education was a higher proportion of the basket in 2017 than in 2011
- B** House prices rose between 2011 and 2017
- C** Spending on food and non-alcoholic beverages fell between 2011 and 2017
- D** Spending on alcohol and tobacco remained constant between 2011 and 2017
- E** More students were in education in Australia in 2017 than in 2011



13. Research in the US suggests the following price elasticities of demand (PED) and cross-price elasticities of demand (XED) for cereals and for fruit and vegetables:

PED for fruit and vegetables	-0.79
PED for cereals	-0.58
XED for fruit and vegetables with respect to a change in the price of cereals	-0.3

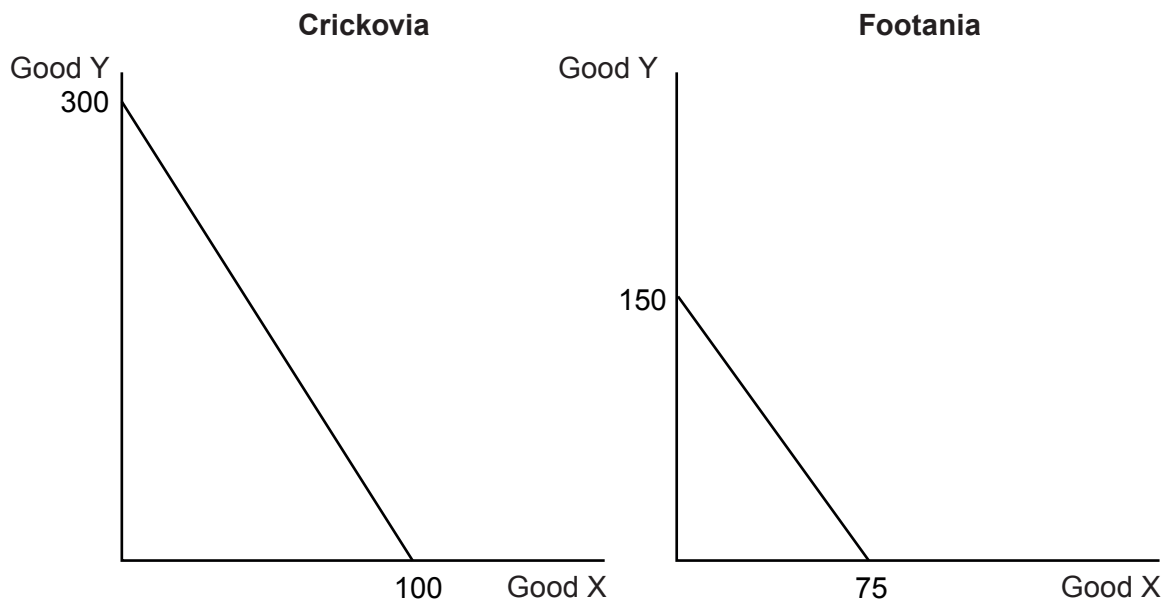
The effect of a 10% decrease in the price of cereals would be likely to be:

[1]

	Demand for cereals	Demand for fruit and vegetables
A	-5.8%	-3%
B	+3%	+7.9%
C	+5.8%	+3%
D	-3%	-7.9%
E	+5.8%	+1.09%



14. The diagram below shows the production possibility frontiers (PPFs) for two economies, Crickovia and Footania.



Which of the following summarises the potential trade situation between the two countries? [1]

CA = Comparative advantage
AA = Absolute advantage

	Crickovia	Footania	Possible trade deal
A	CA in Y	CA in X	2X for 5Y
B	CA in Y	CA in X	5X for 2Y
C	CA in X	CA in Y	2X for 5Y
D	CA in X	CA in Y	5X for 2Y
E	AA in both	CA in X	No deal possible



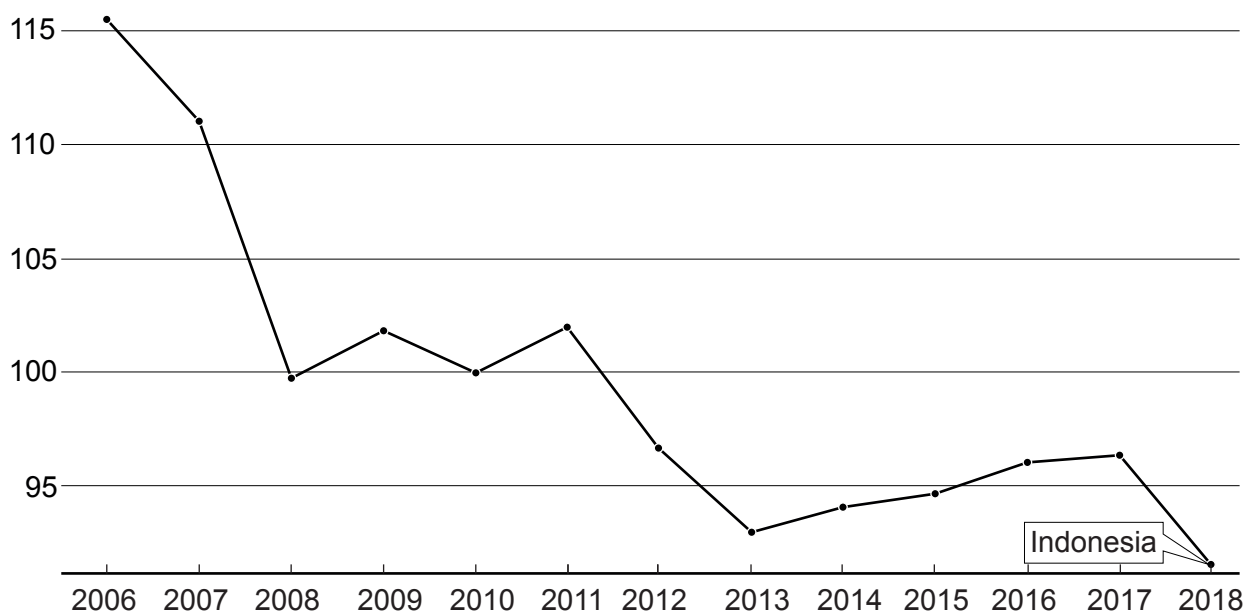
15. Between 2010 and 2015 the US money supply rose from around \$2tn to around \$4tn. Over the same period, US nominal GDP rose from around \$15tn to around \$21tn.

According to the quantity theory of money, which of the following can be deduced? [1]

- A Real GDP rose
- B The price level rose
- C The velocity of circulation fell
- D Nominal GDP rose slower than the price level
- E The price level rose more quickly than the velocity of circulation

16. The chart below shows the terms of trade index for Indonesia.

Terms of trade index (2006–2018)



It can be concluded that: [1]

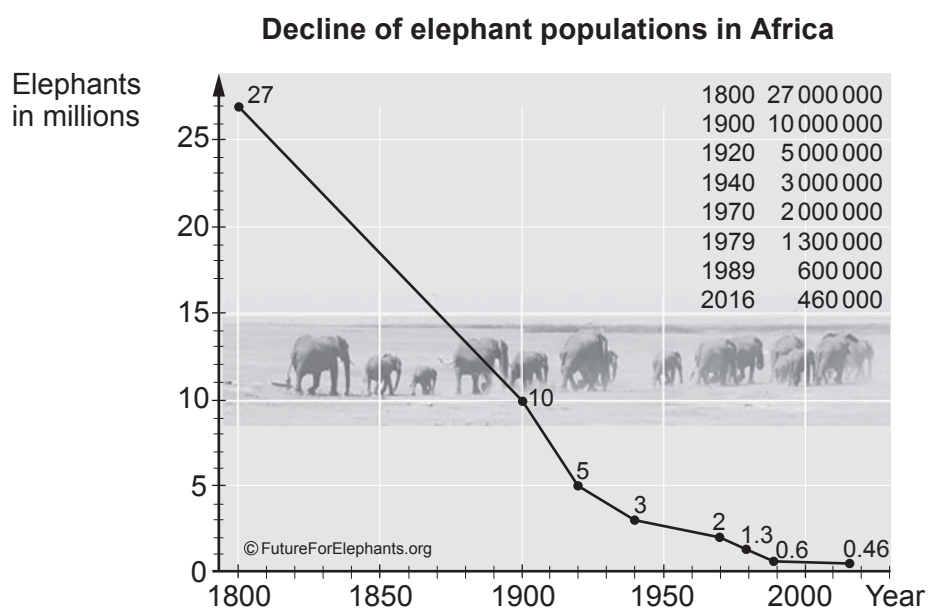
- A Indonesia's trade balance was worse by the end of the period than the start
- B The index of Indonesian export prices fell on average over the period
- C The index of Indonesian import prices fell on average over the period
- D The index of Indonesian import prices fell relative to the index of export prices on average over the period
- E None of the above



17. A sharp fall in the value of the pound against all major currencies would most likely result in: [1]

- A An improvement in the UK's terms of trade
- B A rise in the price of UK exports
- C A fall in the overseas earnings of UK-owned multinationals
- D A rise in the number of UK firms purchased by overseas firms
- E A fall in the UK rate of inflation

18. Study the chart on elephant numbers below.



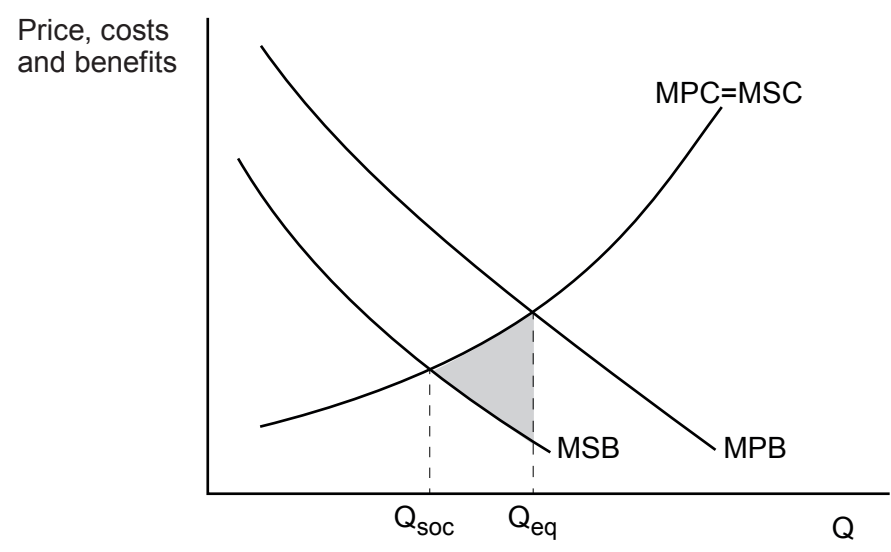
The most likely economic explanation for the trend shown in the chart is that:

[1]

- A Elephants are public goods
- B There are external benefits in the consumption of ivory
- C Elephants are demerit goods
- D There is an absence of property rights
- E There is the existence of monopoly power



19. The diagram below shows a market in which an externality is present:



Key:

- MPB = Marginal private benefit
- MSB = Marginal social benefit
- MPC = Marginal private cost
- MSC = Marginal social cost
- Q_{eq} = equilibrium output
- Q_{soc} = socially optimal level of output
- = welfare loss

The most likely explanation for the situation shown in the diagram is: [1]

- A** Pollution from coal-fired power stations
- B** Health care provision
- C** Raw sewage discharged into rivers
- D** Noise from lorries leaving a steelworks
- E** Alcohol consumption



20. The table below shows the demand and supply functions for a commodity:

Price (£)	Demand (million kg/week)	Supply (million kg/week)
50	0	75
45	10	70
40	20	65
35	30	60
30	40	55
25	50	50
20	60	45
15	70	40

If the government was to impose a tax of £15/million kg on producers, the impact on the equilibrium price and quantity would be: [1]

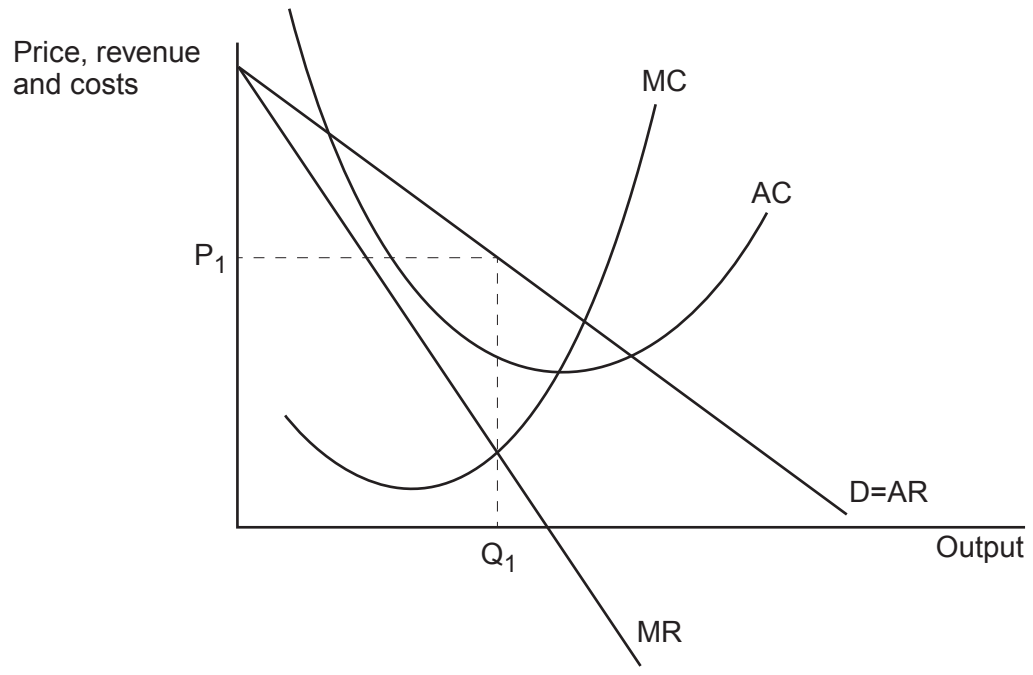
	New equilibrium price	New equilibrium quantity
A	£30	40
B	£30	55
C	£35	45
D	£40	65
E	£40	20

 20


SECTION B

Answer **all** the questions in the spaces provided.

21. The diagram below shows a monopoly firm operating at the profit maximising output of Q_1 .



Using the diagram, explain why the firm maximises profit at output Q_1 . [3]

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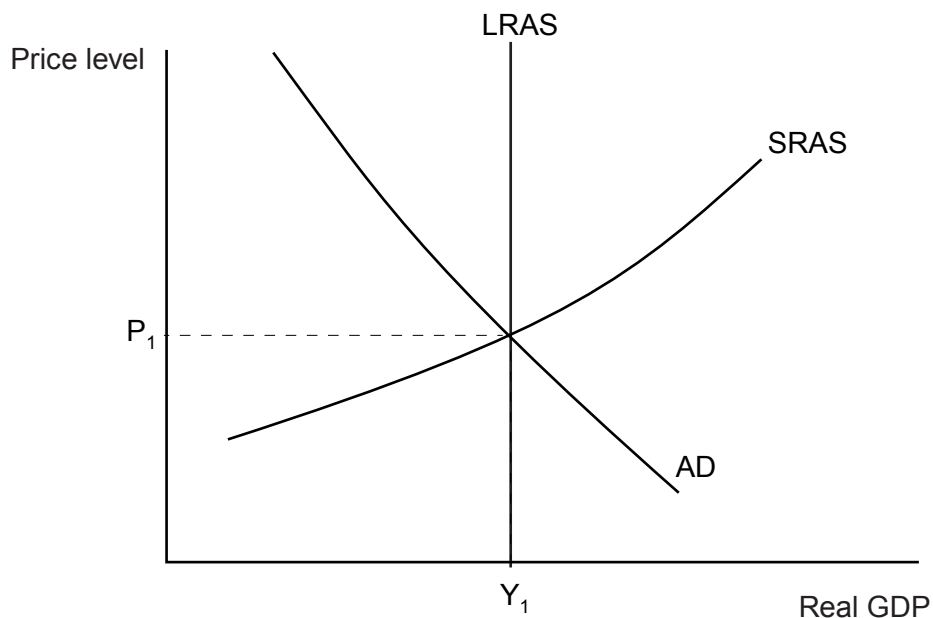
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Examiner only

22. The diagram below shows an economy in equilibrium at P_1Y_1 . The government then increases its expenditure on infrastructure.



Consider the extent to which such a policy would be beneficial for the economy. Adapt the diagram as part of your answer. [6]

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23. Saint Emillion is a small town in the wine growing area of Bordeaux in France. The harvest of grapes is used to make wine and is affected significantly by the weather. Once produced, the wine is put into barrels for 18 months until it is finally put into bottles.

With the aid of a diagram, comment on the likely price elasticity of supply of Saint Emillion wine. [3]

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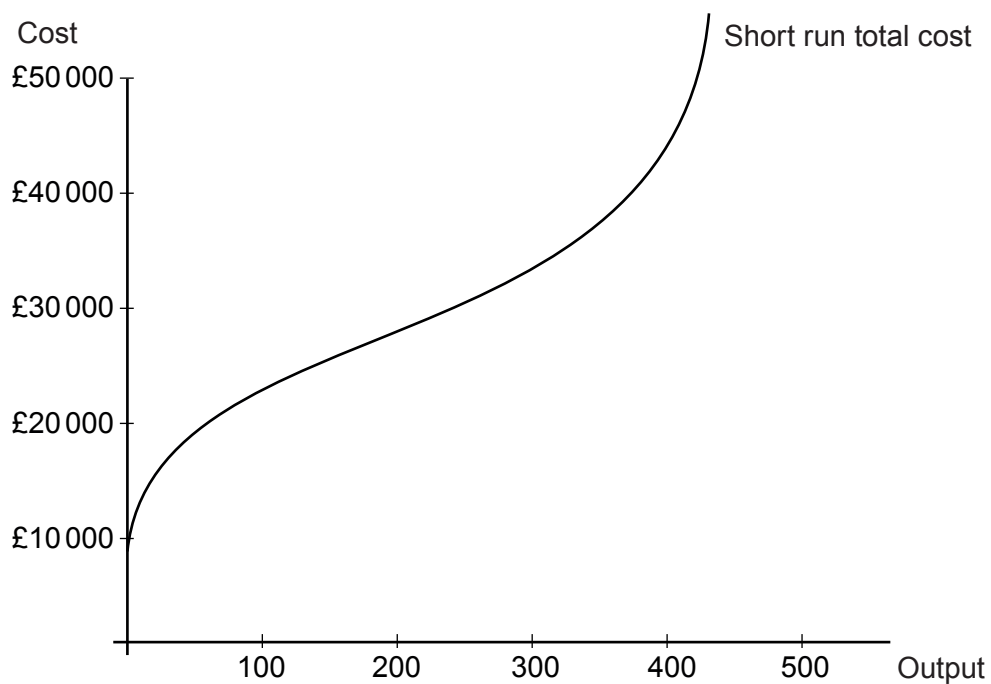
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24. The diagram below shows the short run total cost curve for a firm at different output levels.



Explain the shape of this firm's short run total cost curve.

[4]

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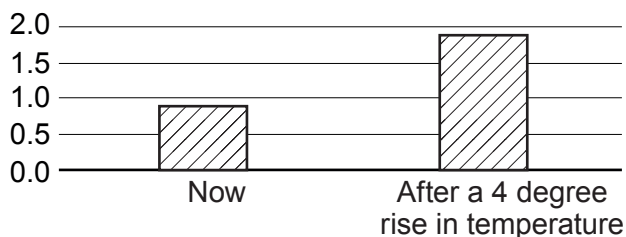
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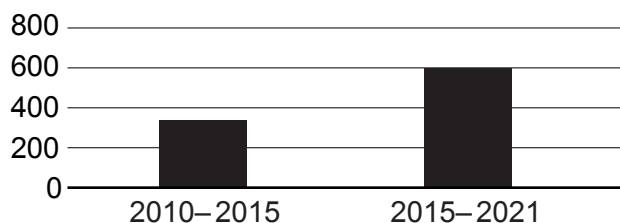
26. Over the decades to come, UK households face an ever-increasing risk of flooding as a result of rising global temperatures. Government expenditure on flood defences (which are public goods) has been rising in recent years. The Environment Agency estimates that in the long term, government spending should increase to about £1 bn per year on flood defences.

There has been criticism of the government's flood defence spending, with one report stating that "current flood management policies are fragmented, inefficient and ineffective". Another criticism has been that the spending is much higher in the southeast of England than in other parts of the UK.

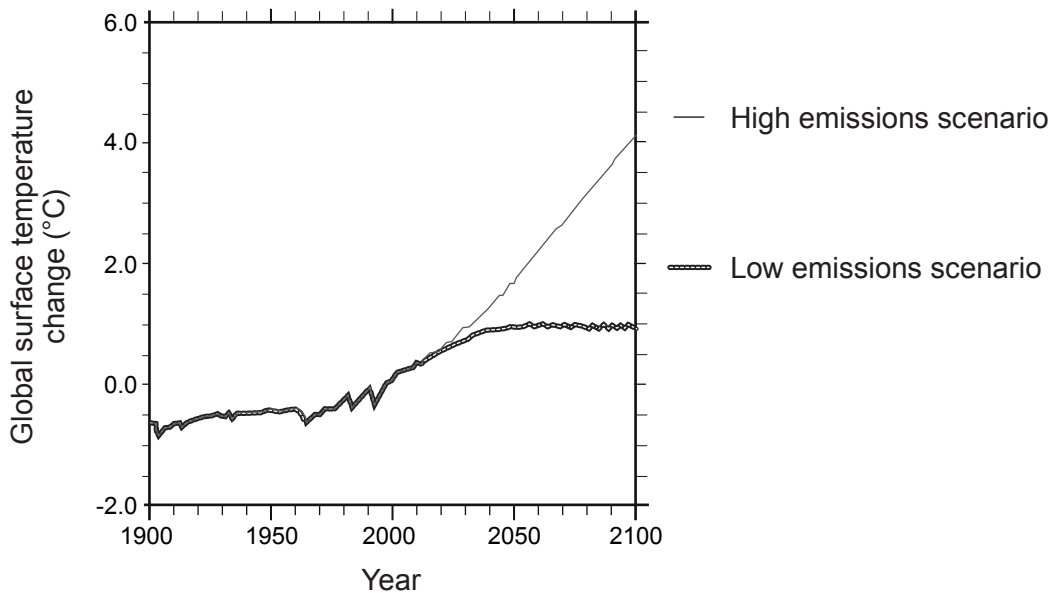
Properties at significant risk of flooding (million)



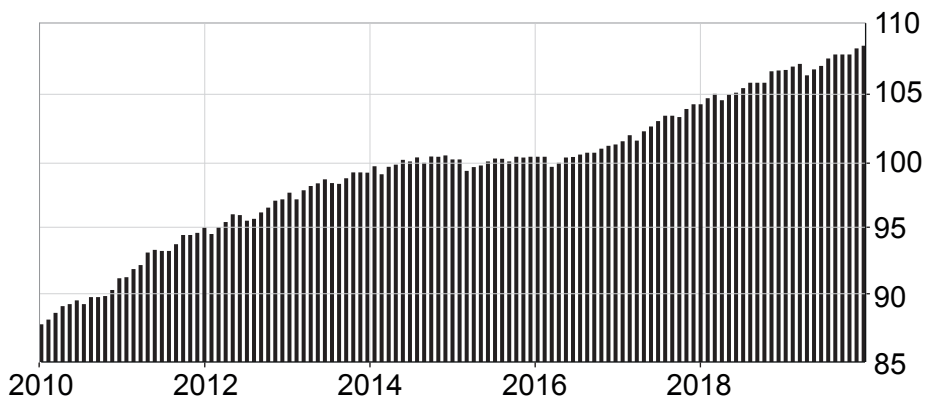
Average annual UK Government spending on flood defences (£m)



Forecast global surface temperature changes for different future greenhouse gas emissions



UK CPI 2010–2019



With reference to the data above, consider how effective the UK Government’s spending on flood defences is in correcting market failure. [8]

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27. The table below gives information on selected countries:

Country	Human Development Index (HDI)	Oil reserves (barrels per person)	Corruption Perceptions rating (where 1 is the country in the world perceived to be least corrupt and 180 is perceived to be most corrupt)
Norway	0.953	1 090.60	7
Canada	0.926	4 712.50	9
Qatar	0.856	10 092.40	33
Iran	0.798	1 980.30	138
Venezuela	0.761	9 668.50	168=
Gabon	0.702	1 043.10	124
Iraq	0.685	3 748.80	168=
Equatorial Guinea	0.591	878.1	172

Using the information above and relevant economic theory, discuss the extent to which possessing natural resources, such as oil, leads to high levels of economic development. [8]

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END OF PAPER



