

Candidate Name	Centre Number					Candidate Number				
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**AS****ECONOMICS****Unit 1****Introduction to Economic Principles****SPECIMEN PAPER****1 hour 15 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

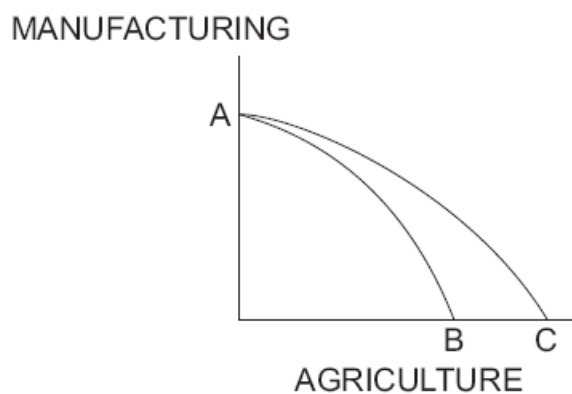
The number of marks is given in brackets at the end of each question or part-question.

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

SECTION A

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

1. Study the production possibility frontier diagram below.



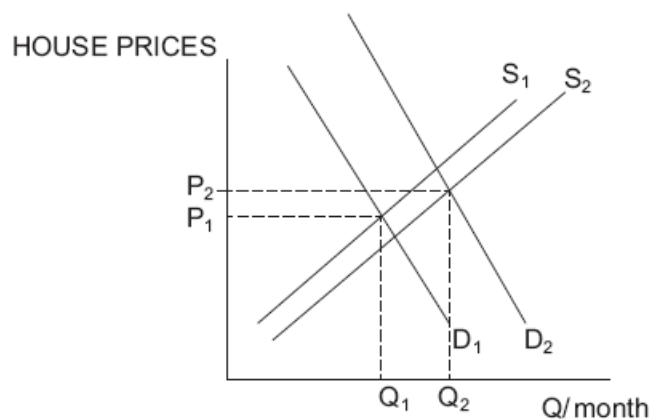
Which of the statements gives the most likely reason for a shift in the production possibility frontier from AB to AC?

ANSWER

Tick one box only

- | | | |
|----------|--------------------------------------------------------------------------------|--------------------------|
| A | An increase in the population of the country | <input type="checkbox"/> |
| B | Resources are transferred from agriculture to the manufacturing industry | <input type="checkbox"/> |
| C | More efficient robotic equipment is introduced into the manufacturing industry | <input type="checkbox"/> |
| D | More disease-resistant seeds are developed in agriculture | <input type="checkbox"/> |
| E | Resources are transferred from the manufacturing industry to agriculture | <input type="checkbox"/> |

2. The diagram below shows the impact of the changes in the market for housing, initially in equilibrium at P_1 over a year.



The most likely explanation for the changes shown is a

- A** fall in mortgage interest rates and a rise in house building
- B** fall in mortgage interest rates and a fall in house building
- C** rise in mortgage interest rates and a rise in house building
- D** rise in mortgage interest rates and no change in house building
- E** rise in mortgage interest rates and a fall in house building

ANSWER

Tick one box only

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3. Following the fall of the price of Good X by 10%, market researchers observe the following changes:

Good	X	Y	Z
Demand for that Good	+5%	+8%	-12%

It can be concluded, other things being equal, that:

ANSWER
Tick one box only

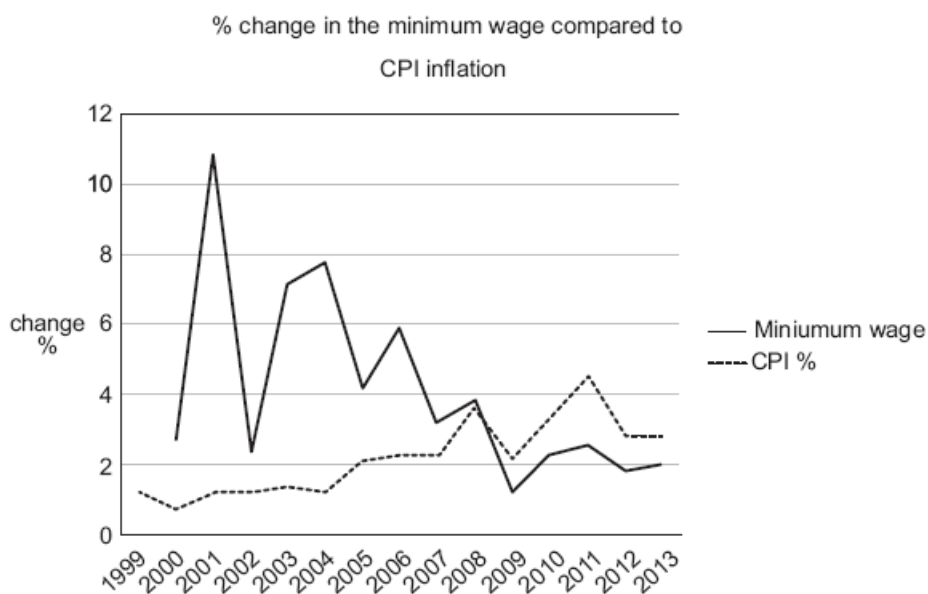
	Price elasticity of demand for X	Relationship between X and Y	Relationship between X and Z	
A	Inelastic	Substitutes	Complements	<input type="checkbox"/>
B	Elastic	Substitutes	Complements	<input type="checkbox"/>
C	Inelastic	Can't tell	Can't tell	<input type="checkbox"/>
D	Elastic	Complements	Substitutes	<input type="checkbox"/>
E	Inelastic	Complements	Substitutes	<input type="checkbox"/>

4. Which of the following provides the best justification for government intervention in a market?

ANSWER
Tick one box only

A	Markets may not always allocate resources optimally	<input type="checkbox"/>
B	In reality prices cannot adjust quickly enough for supply and demand to be equilibrium	<input type="checkbox"/>
C	Markets may supply too few demerit goods	<input type="checkbox"/>
D	Markets allow businesses to make profits	<input type="checkbox"/>
E	Only governments are capable of supplying merit goods	<input type="checkbox"/>

5. The chart below gives information on percentage changes in the national minimum wage and inflation over the period 1999 to 2013.



It can be concluded that

- A** the nominal minimum wage fell sharply in 2002
- B** prices were at their highest in 2011
- C** the real minimum wage fell between 2009 and 2013
- D** the nominal minimum wage fell between 2000 and 2013
- E** the real minimum wage fell between 1999 and 2008

ANSWER

Tick one box only

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6. If the social cost of producing chicken is greater than the private cost, then we can be sure that:

ANSWER*Tick one box only*

- A** a positive externality exists
- B** chicken is healthy and more should be produced
- C** a negative externality exists
- D** the price of chicken is too high
- E** the production of chicken should be subsidised

7. Which of the following is seen as an example of an injection into the circular flow of income?

ANSWER*Tick one box only*

- A** Imports
- B** Taxation
- C** Consumption
- D** Saving
- E** Exports

8. The table below shows national income statistics for Ireland in 2011:

Gross National Product	Gross Domestic Product
128.3 billion euros	156.4 billion euros

The most likely reason for this difference is that Ireland

ANSWER*Tick one box only*

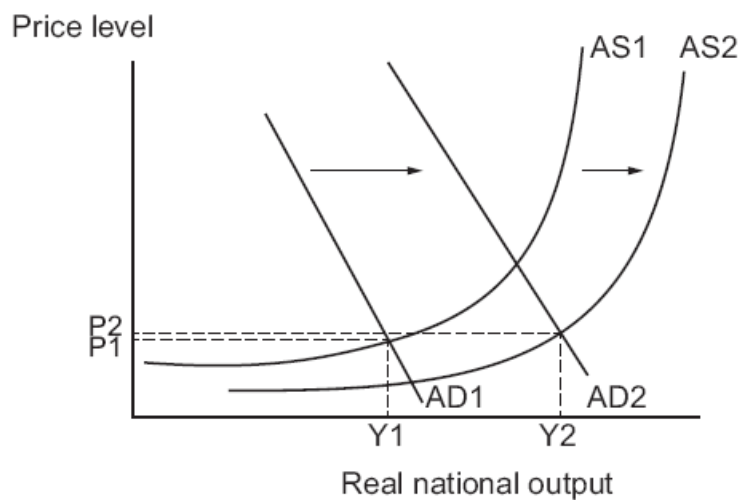
- A** has been slow to recover from the global financial crisis
- B** has large numbers of multinational corporations based there
- C** imports far more than it exports
- D** has significant property income coming in from abroad
- E** has recently experienced deflation

9. Total consumption expenditure in an economy is most likely to rise if there is a/an

ANSWER*Tick one box only*

- A** significant rise in base interest rates
- B** fall in tax allowances
- C** sustained rise in house prices
- D** sharp fall in the exchange rate
- E** increase in the amount that people can save tax-free

10. The diagram below shows changes over time in aggregate demand and aggregate supply in an economy.



These are most likely to have been caused by a/an

- ANSWER**
Tick one box only
- | | |
|-----------------------------------------------------|--------------------------|
| A reduction in the national minimum wage | <input type="checkbox"/> |
| B fall in corporation tax rates | <input type="checkbox"/> |
| C reduction in trade union power | <input type="checkbox"/> |
| D increase in the level of the state pension | <input type="checkbox"/> |
| E sharp fall in the exchange rate | <input type="checkbox"/> |

11. A good example of an indirect tax is

ANSWER

Tick one box only

A National Insurance contributions

B Income tax

C Corporation tax

D Capital gains tax

E Value added tax

12. As the economy nears full employment the aggregate supply curve tends to

ANSWER

Tick one box only

A become flatter

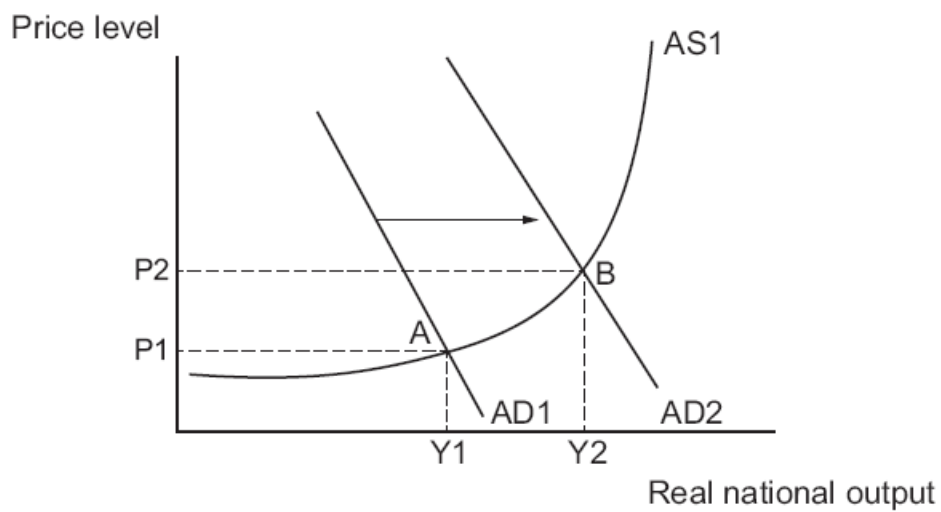
B become steeper

C shift to the left

D shift to the right

E shift upwards

13. The diagram shows an economy where equilibrium has shifted from A to B



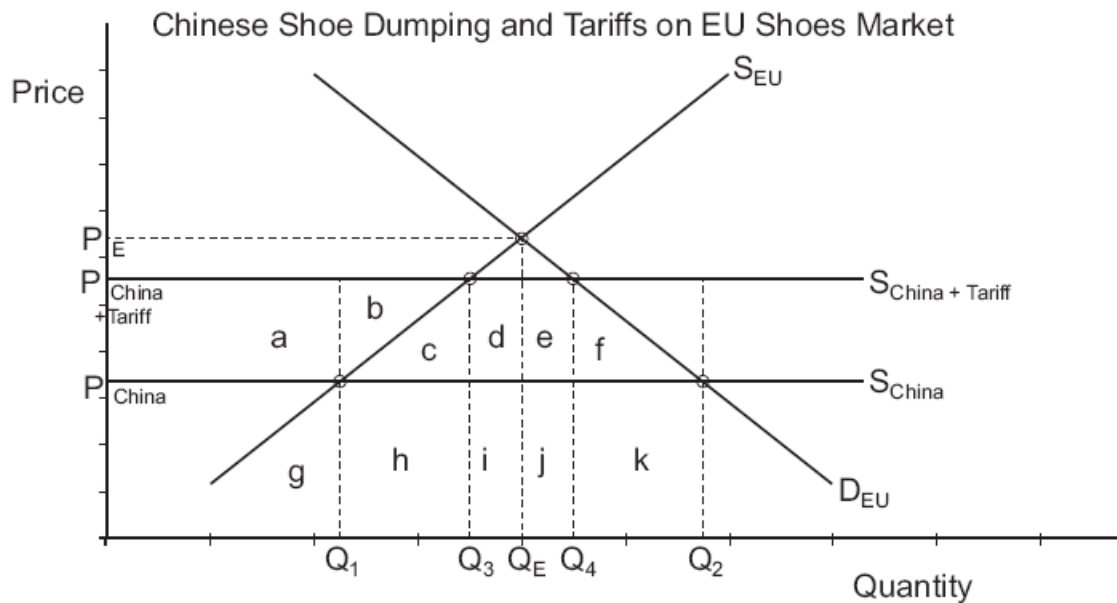
The most likely reason for this shift is an increase in

- A** the price level
- B** the skills of the workforce
- C** consumer confidence
- D** interest rates
- E** the school leaving age

ANSWER

Tick one box only

14. The diagram below shows the impact of a tariff imposed by the EU in an attempt to stop alleged dumping of shoes by Chinese producers.



Which area represents the increase in producer surplus for EU shoe producers?

ANSWER

Tick one box only

A a+b

B d+e

C h+k

D a+b+c+g+h

E b+c+h

15. An unexpected increase in UK interest rates is most likely to cause the currency to appreciate because:

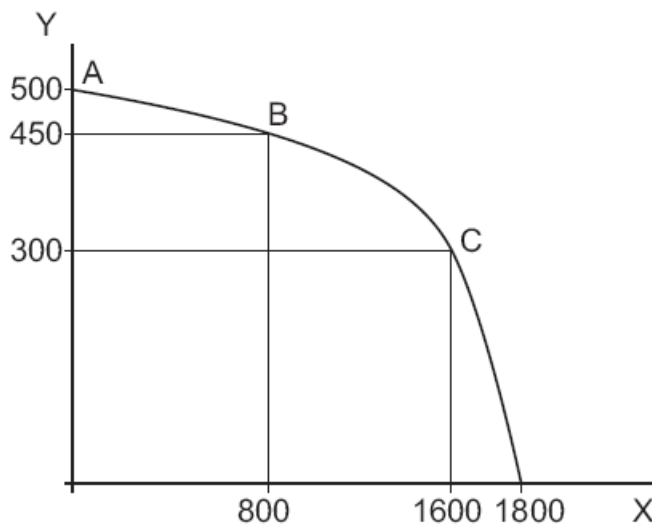
ANSWER*Tick one box only*

- A** of increased inflows of hot money
- B** of increased outflows of hot money
- C** government tax revenue will be higher
- D** of an increased demand for UK exports
- E** of increased investment by domestic firms

SECTION B

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

16. The production possibility frontier below shows the possible outputs of Goods X and Y that a country could produce.



- (a) Calculate the opportunity cost of an increase in the production of Good X:

- (i) as the economy moves from point A to point B [1]

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- (ii) as the economy moves from point B to point C [1]

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- (b) With reference to the PPF above, explain why the opportunity cost of producing Good X changes as the output of Good X increases. [3]

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- 17. In 2002, McDonalds first launched its \$1 Menu in the USA. The \$1 Menu strategy involves offering customers a small range of basic products, such as a hamburger or a portion of fries, for just \$1. Since the economic crisis began in 2008 the \$1 Menu has helped McDonalds to increase its total US revenues. However, critics have argued that fast-food consumption has been shown to increase calorie intake, promote weight gain and increase the risk of diabetes.

As a result, under new healthcare legislation signed by Barack Obama in 2010, restaurants will be required to display calorie information for standard menu items. Furthermore, a recent proposal in San Francisco could see plastic toys banned from the McDonalds' "Happy Meals". Fast-food companies have responded by providing more healthier alternatives but they remain concerned at the growing number of regulations.

- (a) With reference to the data, explain why fast-food items could be classed as 'demerit goods'. [4]

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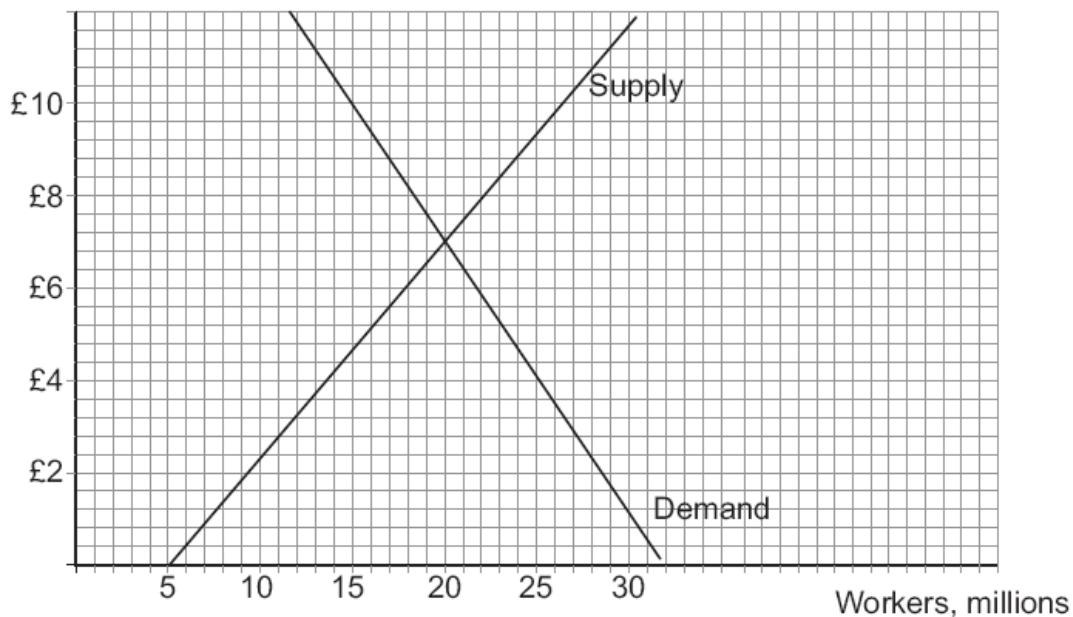
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(b) To what extent can regulation alone be used to correct the market failure associated with the sale of fast-food? [8]

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18. In the diagram below the government decides to impose a minimum wage of £10 an hour.

Wage per hour



- (a) Identify the equilibrium wage level before the imposition of the minimum wage. [1]

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- (b) Calculate how many people will lose their jobs as a result of the minimum wage. [1]

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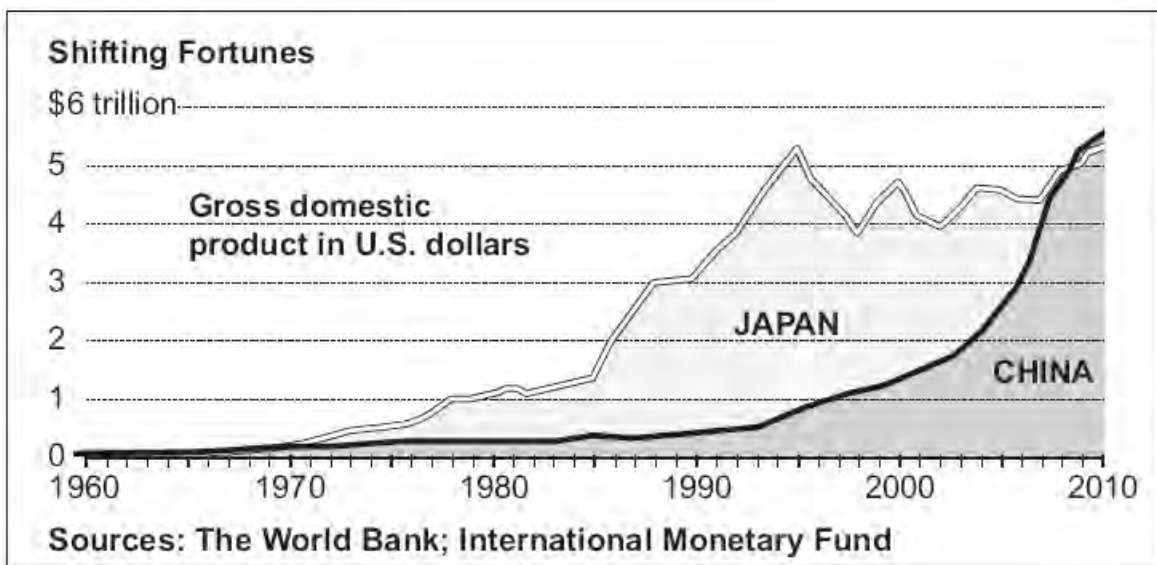
- (c) Calculate the total earnings of minimum wage earners after the imposition of a £10 per hour minimum wage. [1]

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19.



- (a) Calculate Japan's percentage increase in GDP for the twenty year period 1990-2010. [1]

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- (b) Explain one possible reason for the shifting fortunes of China and Japan between 1990-2010 as shown in the diagram. [3]

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(c) To what extent will rapid economic growth, such as that seen in China, create **only** benefits for an economy? [8]

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20. The USA has a long history of introducing protectionist policies against a range of different countries in an attempt to save jobs. In the 1970s tariffs were proposed to save jobs in the car industry as cheaper Japanese imports flooded the market, although in the end Japanese producers agreed voluntarily to restrict their exports. More recently, the US has been criticised by Brazil for paying American cotton farmers big subsidies and a trade war is currently going on with China over American tariffs on imported solar panels.

Using examples from the data above, explain how protectionist policies can help US workers to keep their jobs. [8]

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