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B520U10-1

ECONOMICS – Component 1
Introduction to Economic Principles

A.M. MONDAY, 16 May 2016

1 hour

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	6	
2.	12	
3.	8	
4.	12	
5.	14	
6.	8	
Total	60	

ADDITIONAL MATERIALS

In addition to this paper, you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
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.

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

1. A 2014 study for the UK tax authorities has estimated that the cross price elasticity of demand between beer and spirits, such as whisky and vodka, sold in public houses (pubs) is +0.26.

    (a)   Explain what is meant in economic theory by inelastic cross price elasticity of demand.
    [2]

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    (b)   The price of beer in London currently (Sept 2014) averages £3.80 per pint. If the price of beer in London pubs was to increase from £3.80 to £3.99 per pint, calculate the expected change in the demand for spirits in London pubs.
    [4]

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2. The table below shows the mean and median weekly earnings for selected workers in the health sector:

	Total employees	Median weekly pay	Mean weekly pay
Medical practitioners (Doctors)	242 000	£1038	£1203
Nursing professionals (Nurses)	844 000	£533	£522

Source: ONS

    (a) Using a supply and demand diagram(s), explain why it might be that doctors have higher average weekly earnings than nurses. [8]

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(b) Explain a possible reason why the median weekly earnings for doctors are lower than the mean weekly earnings. [4]

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3. Read the article below and answer the question that follows.

Rail users are being offered help to save money thanks to new websites which find cut-price fares normally hidden from the travelling public by train operating companies.

Websites such as raileasy.co.uk use computer code to help passengers buy cheaper "split tickets" in advance, where they can break their journey into sections instead of buying one ticket for the whole journey. This results in a lower overall fare whilst still travelling on the same train.

Discuss the extent to which websites such as raileasy.co.uk might help to correct market failure in this case. [8]

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4. Study the information below and then answer the questions that follow.

Consumer prices (% change on year earlier)
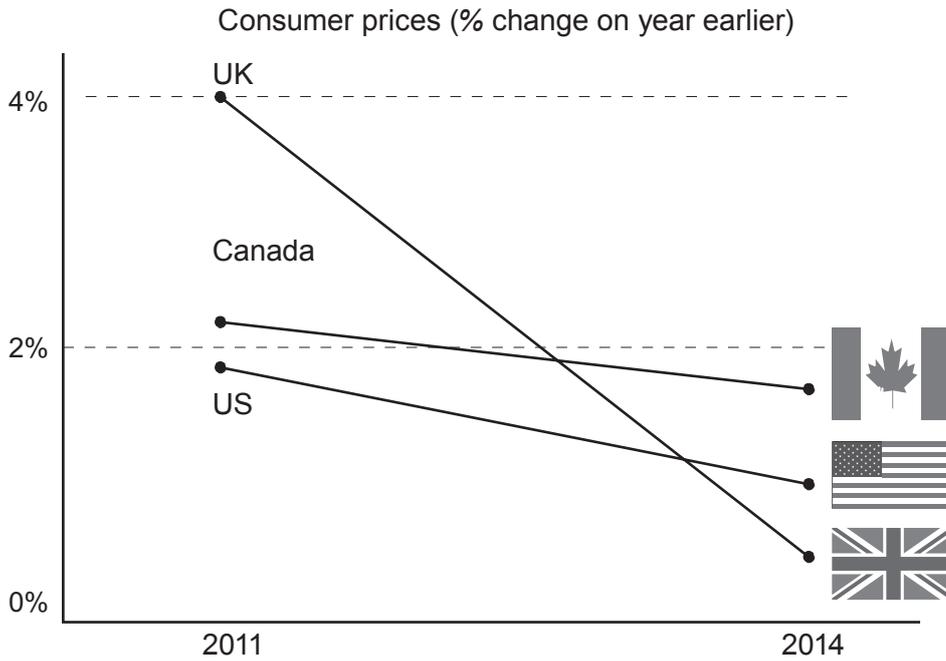
Inflation rates around the world have been falling over the last three years. Widespread economic weakness in rich economies and a slowdown in Chinese economic growth caused the initial decline. More recently falling oil prices have helped to reduce inflation further.

(a) Compare what has happened to prices in the UK and the US between 2011 and 2014.
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(b) Using an Aggregate Demand and Aggregate Supply diagram, explain the reasons for the trends shown in the chart between 2011 and 2014.
[8]

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Turn over.

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5. US to impose big tariffs on China and Taiwan for dumping solar panels on market

The US Government has voted to uphold earlier findings that Chinese and Taiwanese manufacturers have been saturating the US market with low-cost solar panels.

Imports of Chinese solar panels will be "severely punished" with minimum tariff rates starting at 70%; the rates for Taiwanese solar panels will range from 11.45% to 27.55%.

This isn't the first time China has been hit with tariffs for such alleged dumping. In 2012, the US imposed tariffs ranging from 31% to 250% on solar products imported from China. A year later, the European Union also imposed tariffs.

A spokesperson for US solar panel manufacturers said: "Once you address the unfair trade, the US industry can come back and compete and thrive in the US market, where demand is continuing to grow, creating jobs in solar panel manufacture."

Those who work in installing solar panels in the US, however are less amused, because the tariffs will make the cost to them of buying the panels significantly higher. This will mean higher prices for consumers, which will slow the growth of solar power in the US.

(a) Using a diagram, explain how the tariffs on imported Chinese and Taiwanese solar panels would be expected to:

   (i)   Reduce the imports of such panels into the US.
   (ii)   Increase the producer surplus of US manufacturers of solar panels. [6]

(b) Using the data, discuss whether the US Government is right to impose the tariffs described in the data on Chinese and Taiwanese manufacturers of solar panels. [8]

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6. Study the data below and answer the question that follows.

Figure 1 Number of roubles per $

Figure 2

Rouble against the dollar Inverted scale
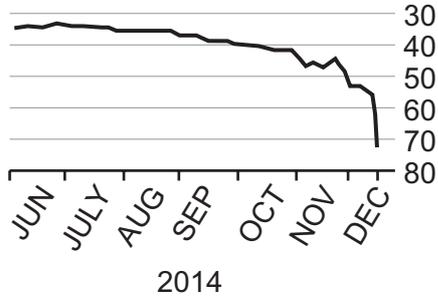
2014

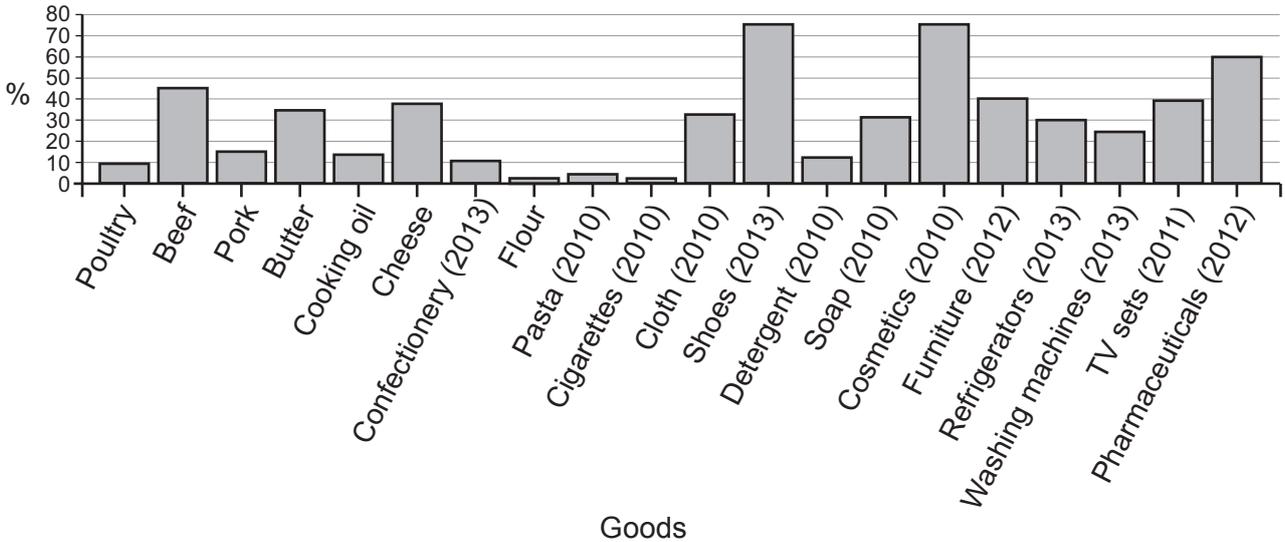**Energy accounts for two-thirds
of Russian exports**

- Energy
- Metals
- Chemicals
- Machinery
- Others
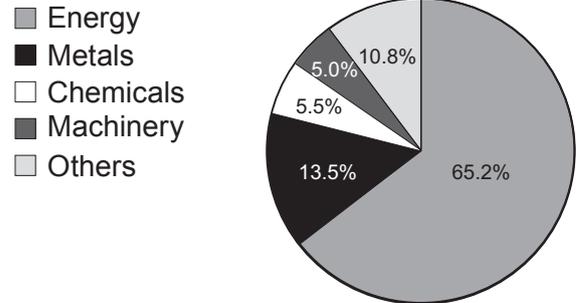
Figure 3

Imports of basic consumer goods to Russia

Goods

Import percentage by volume (Jan-June, 2014, unless otherwise specified)

Source: www.thomaswhite.com

At times, currency depreciations can be beneficial to countries. In the case of Russia, the fall in the rouble has helped to protect its oil revenue (which is priced in dollars) after the major reduction in oil prices in 2014.

However, in reality the collapse of the rouble may actually do more harm than good because the country is highly dependent on imports in some key sectors and its export market is dominated by energy. Even non-energy exports may not benefit much because of the high levels of uncertainty over the economic restrictions being placed on Russia by governments in both the US and the UK.

Examiner only

With reference to the data, discuss the extent to which the fall in the value of the rouble (Figure 1) is likely to be beneficial to Russia's economy. [8]

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