

Candidate Name	Centre Number				Candidate Number			



AS ECONOMICS

COMPONENT 1

Introduction to Economic Principles

SPECIMEN PAPER

1 hour



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 learner number in the spaces at the top of this page.

Answer all the questions in the spaces provided.

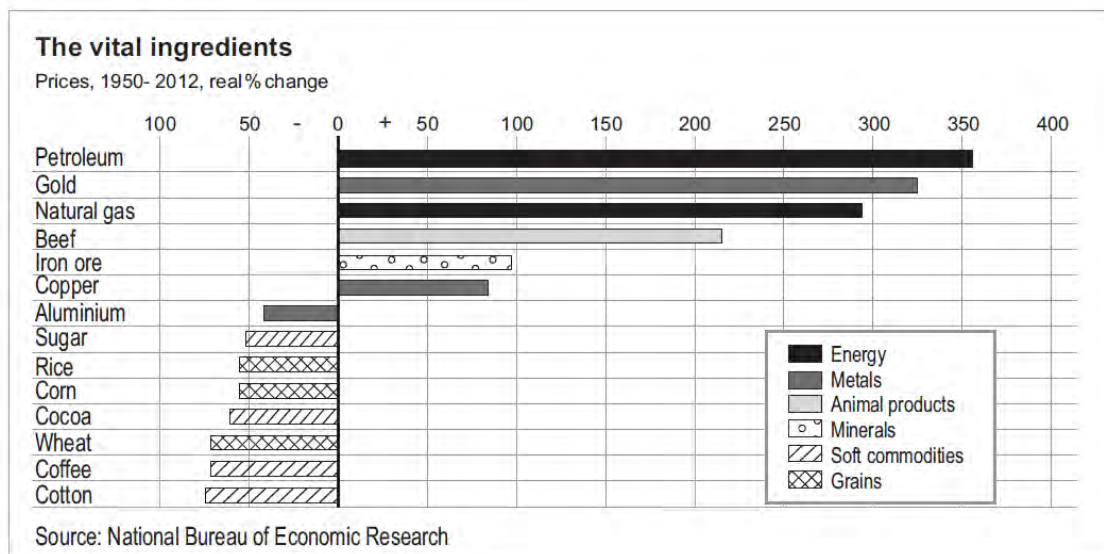
INFORMATION FOR CANDIDATES

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

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

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

1. Study the information below and answer the questions that follow.



A recent report on commodity prices has shown that there have been big differences in price changes over the last 60 years.

'In the ground' commodities (such as iron ore, gold and gas), for which supply cannot easily be increased, have increased in price significantly as global population has risen.

In contrast, prices for resources that can be grown have trended downwards. The inflation-adjusted prices of rice, corn and wheat are lower now than they were in 1950. Although the global population is 2.8 times above its 1950 level, global production of grains such as rice, corn and wheat is 3.6 times higher.

With reference to the data and using supply and demand diagrams explain why:

(a) The prices of 'in the ground' commodities such as iron ore have increased significantly since 1950. [4]

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(b) The prices of grains such as rice, corn and wheat are lower than they were in 1950. [4]

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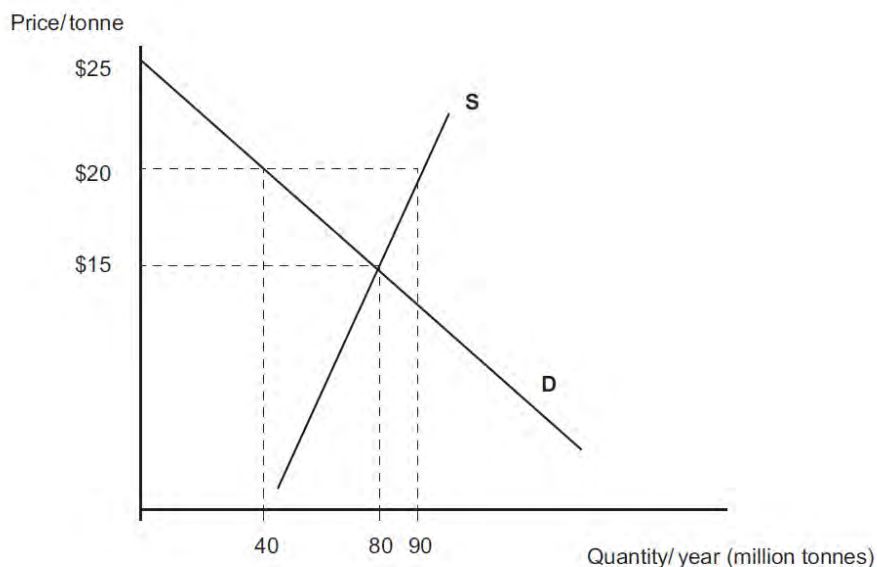
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2. The diagram below illustrates the impact of a government imposing a minimum guaranteed price of \$20/tonne above the free market price of \$15/tonne for an agricultural product:



Using the diagram, calculate:

- (a) The producers' revenue before the guaranteed price was introduced. [1]

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- (b) The cost to the government of buying excess supply at the guaranteed price. [1]

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- (c) The consumer surplus after the guaranteed minimum price was introduced. [1]

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- (d) Total income of producers after the guaranteed price was introduced. [1]

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3. Suppose that a firm knows that price elasticity of demand for its product is -1.5 . Currently the firm sells 500 units/week at a price of £5/unit.

If the firm was to cut the price to £4/unit, calculate:

- (a) The probable impact on the firm's sales. [3]

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- (b) The firm's new level of revenue if those sales occur. [1]

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- 4. Read the data about Wikipedia and answer the question below.

Wikipedia is a collaboratively edited, multilingual, free Internet encyclopedia that is supported by the non-profit Wikimedia Foundation. Worldwide volunteers collaboratively write Wikipedia's 30 million articles in 287 languages, including over 4.4 million in the English Wikipedia. Anyone who can access the site can edit almost any of its articles, which comprise the largest and most popular general reference work available on the Internet.

With reference to the data, discuss the extent to which Wikipedia might be considered to be a public good. [6]

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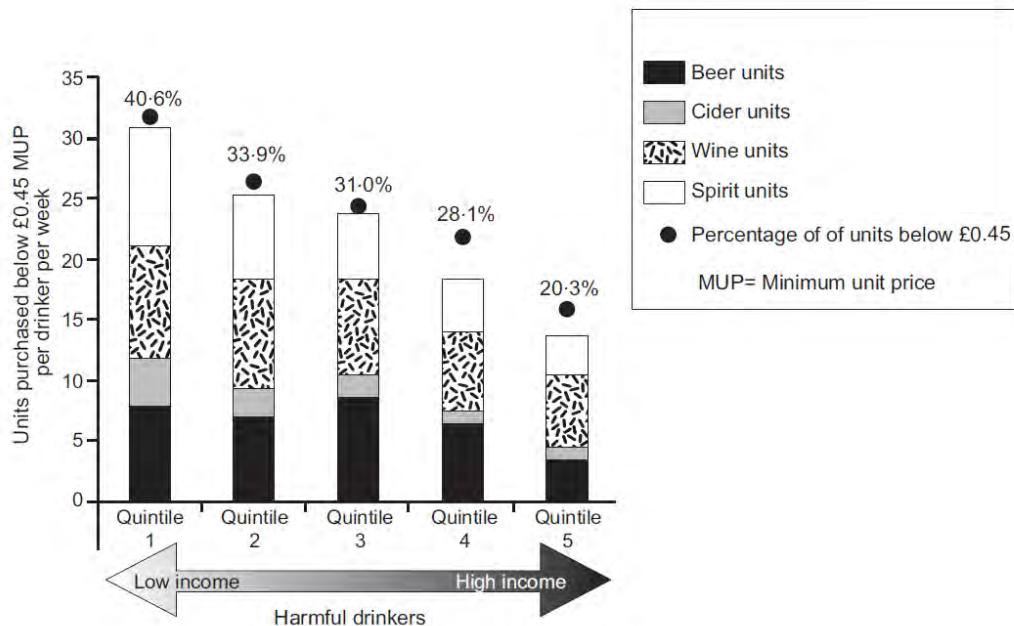
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5. Introducing minimum pricing for alcohol would lead to 860 fewer deaths a year and 29,900 fewer hospital admissions among heavy-drinkers, while having only a slight effect on moderate drinkers, according to research into the policy's impact.

The study, from Sheffield University, predicts that making stronger drinks more expensive, through a price of 45p per unit of alcohol, would impact on those who drink most heavily and are on low incomes. They would reduce their drinking and reap a health benefit, with fewer alcohol-related deaths and illness.



With reference to the data, discuss whether introducing a minimum price of 45p per unit is a good way of trying to correct market failure in the alcohol industry. [8]

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6. The table gives index numbers of GDP in the UK.

	(2010=100)
2008	103.7
2009	98.4
2010	100
2011	101.1
2012	101.4
2013	103.2

Use the data to calculate annual economic growth in:

- (a) between 2012 and 2013 [1]

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- (b) between 2008 and 2009 [1]

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7. UK GDP growth driven by rise in consumer spending in 3rd quarter of 2013

Economic growth in the UK was driven by consumer spending in the third quarter of the year, Office for National Statistics (ONS) figures show.

Consumer spending, which accounts for nearly two-thirds of the UK's economic activity rose by 0.8%, the most since the second quarter of 2010. Unemployment has now fallen by half a million since early 2012.

The ONS figures showed that business investment grew by 1.4% in the July-to-September period, after dropping 2.7% in the previous quarter.

But exports from the UK fell by 2.4% in the third quarter, increasing the trade deficit and while UK economic growth was strong, GDP is still 2.5% below its pre-recession level.

Adapted from: www.bbc.co.uk

- (a) Explain two factors that might have caused consumption to rise in late 2013. [4]

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- (b) With reference to the data, discuss whether a sustained rise in UK consumer spending will be beneficial for the economy. [8]

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8. Bank of England could raise interest rates next spring, says MPC member

Ian McCafferty, a Bank of England policymaker has reinforced expectations that the first rise in interest rates will come as soon as spring 2015, causing the pound to appreciate against other leading currencies.

McCafferty said that wage deals in coming months would be "quite critical" as policymakers watch for inflation risks. The Bank of England itself has gone on record as saying that a rate rise in early 2015 would be consistent with achieving its 2% inflation target.

McCafferty added that the exact timing of an interest rate rise would show how strong the recovery is in terms of how quickly aggregate demand rises; the stronger the recovery, the sooner inflationary pressures will begin to emerge.

Adapted from: www.theguardian.com

- (a) Use a supply and demand diagram to explain how expectations of a rise in interest rates might cause the exchange rate to appreciate. [4]

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(b) Explain how increasing interest rates in spring 2015 might help the Bank of England to achieve its 2% inflation target. [6]

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