

Surname
Other Names

Centre Number

Candidate Number
2



GCE A LEVEL – NEW

A520U10-1



ECONOMICS – A level component 1
Economic Principles

TUESDAY, 6 JUNE 2017 – AFTERNOON

1 hour 30 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-20	20	
21	4	
22	2	
23	2	
24	6	
25	8	
26	8	
27	2	
28	8	
Total	60	

ADDITIONAL MATERIALS

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** questions.

Write your answers in the spaces provided in this booklet. If you run out of space, use the continuation pages 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.

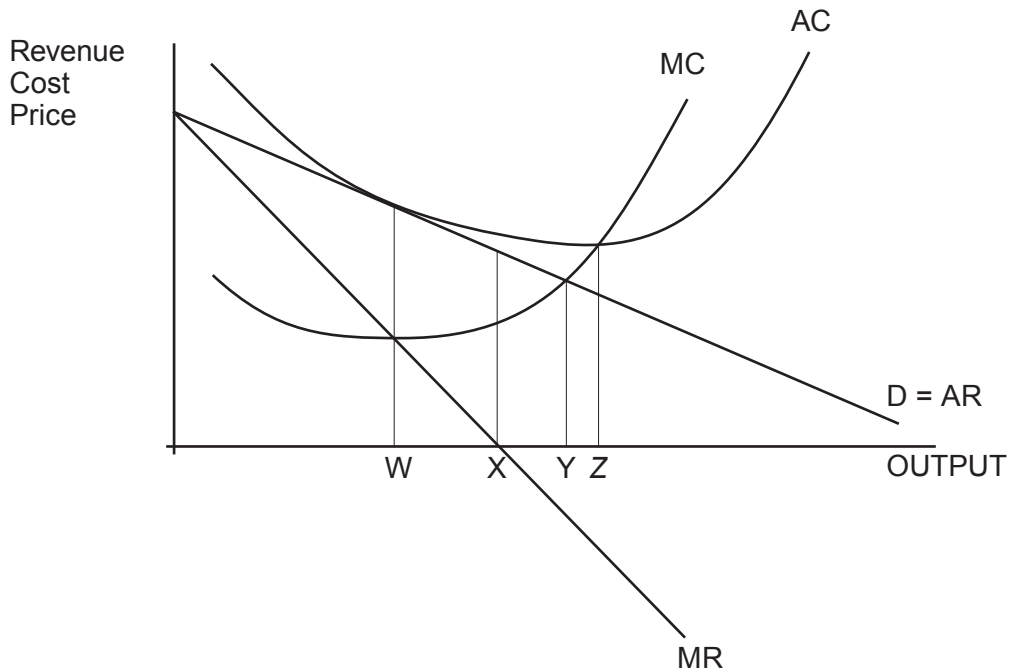
You are reminded of the necessity for good English and orderly presentation in your answers.

SECTION A

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

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

Use the diagram below to answer questions 1 and 2. The diagram illustrates a firm operating in long run equilibrium in monopolistic competition.



1. Which of the following levels of output corresponds to where the firm is allocatively and productively efficient? [1]

	Allocative efficiency	Productive efficiency	ANSWER Tick (✓) one box only
A	W	Y	<input type="checkbox"/>
B	X	Z	<input type="checkbox"/>
C	Z	Y	<input type="checkbox"/>
D	Y	Z	<input type="checkbox"/>
E	Y	X	<input type="checkbox"/>

2. What would be the change in the firm's output if it switched from an objective of profit maximisation to one of sales revenue maximisation? [1]

ANSWER*Tick (✓) one box only*

- | | | |
|----------|-----------|--------------------------|
| A | No change | <input type="checkbox"/> |
| B | W to X | <input type="checkbox"/> |
| C | W to Y | <input type="checkbox"/> |
| D | W to Z | <input type="checkbox"/> |
| E | X to W | <input type="checkbox"/> |

3. A firm reduces the price of a particular product from £10 to £8 and as a result total revenue rises from £2000 to £2080. The price elasticity of demand for this product is: [1]

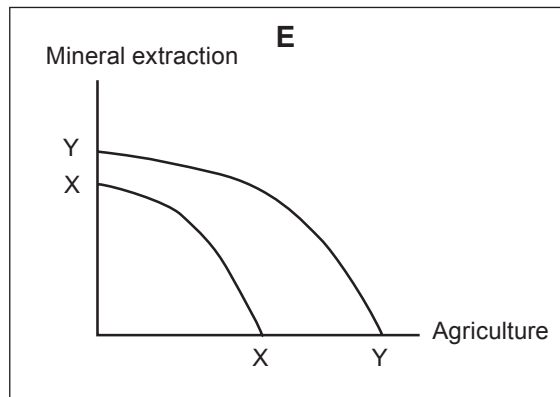
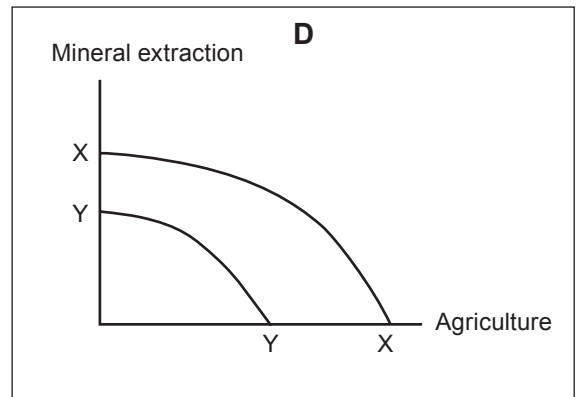
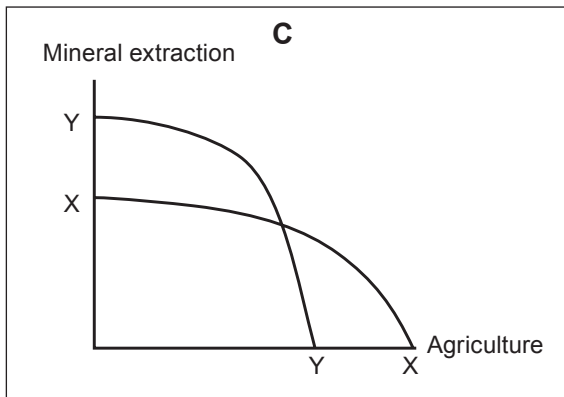
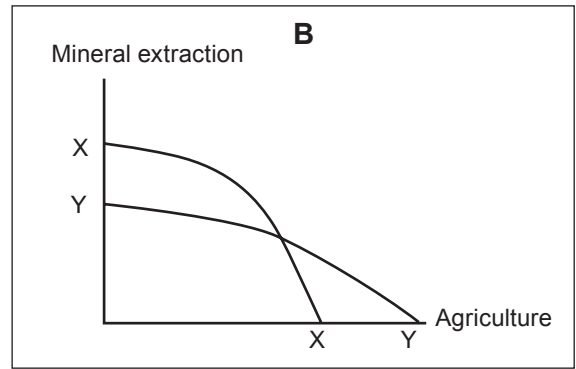
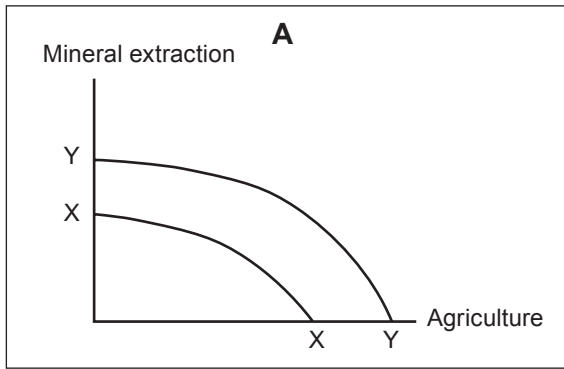
ANSWER*Tick (✓) one box only*

- | | | |
|----------|-------|--------------------------|
| A | -0.2 | <input type="checkbox"/> |
| B | -0.67 | <input type="checkbox"/> |
| C | -1.5 | <input type="checkbox"/> |
| D | -5 | <input type="checkbox"/> |
| E | -40 | <input type="checkbox"/> |

4. An economy has two major sectors, mineral extraction and agriculture. As a result of years of mineral extraction, its mineral reserves are falling and extraction is becoming increasingly difficult. However, more advanced production methods are being introduced into agriculture. As a result of these changes the economy's production possibility frontier (PPF) shifts from XX to YY.

Which diagram best illustrates the change in the economy's PPF?

[1]

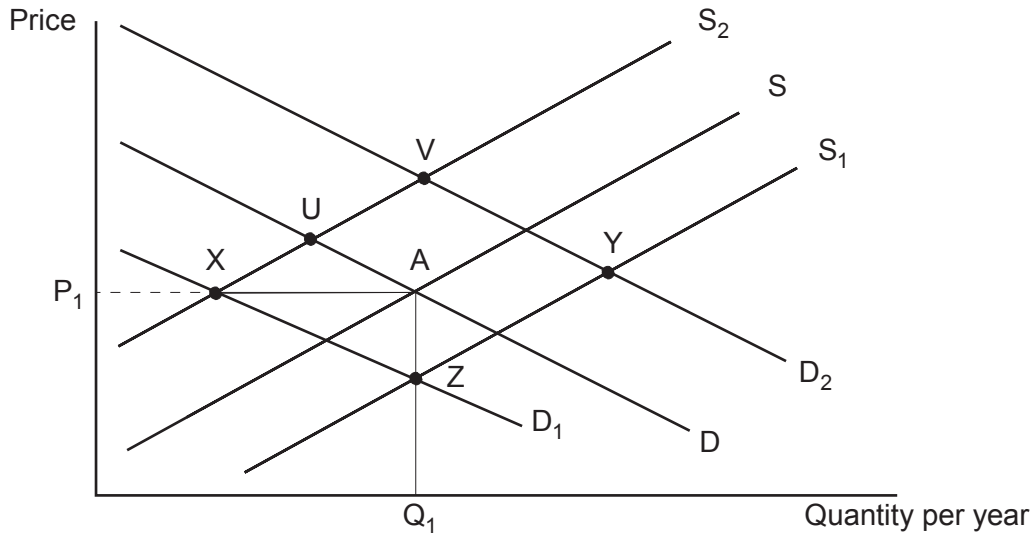


ANSWER

Tick (✓) **one** box only

- A**
- B**
- C**
- D**
- E**

5. In the diagram below, point A indicates the equilibrium price and quantity of white rice sold in a country per year. Suppose that there is a decrease in the price of brown rice and an increase in sales tax on white rice. Which point (U-Z) marks the most likely new equilibrium in the market for white rice? [1]



ANSWER
Tick (✓) one box only

A	U	<input type="checkbox"/>
B	V	<input type="checkbox"/>
C	X	<input type="checkbox"/>
D	Y	<input type="checkbox"/>
E	Z	<input type="checkbox"/>

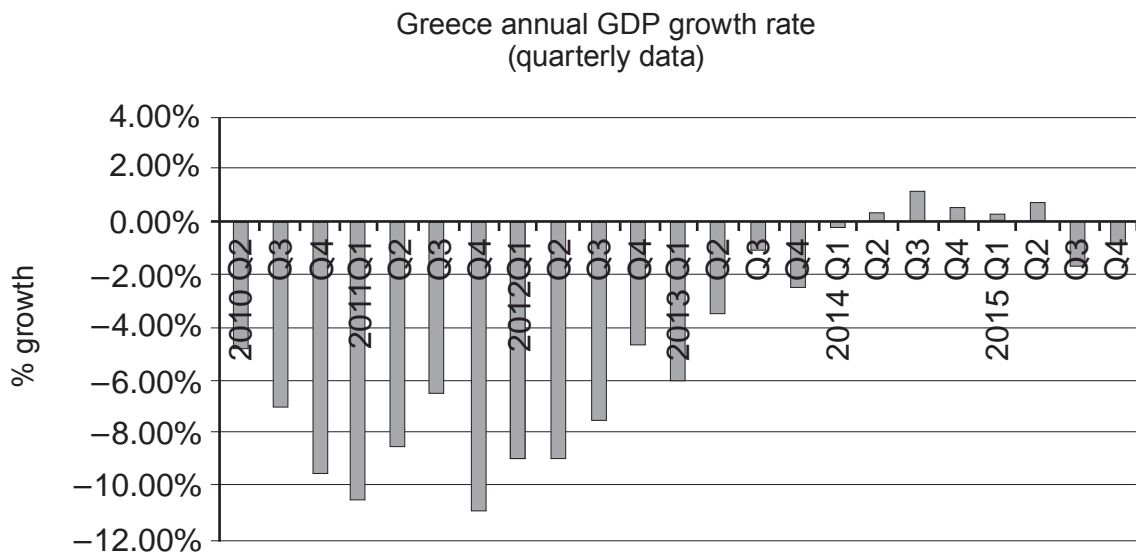
6. As a result of an increase in the Bank of England's base rates, a firm's interest payments on its loans increase. What is the likely impact on its marginal and average cost? [1]

	Marginal Cost	Average Cost	ANSWER Tick (✓) one box only
A	Increase	Increase	<input type="checkbox"/>
B	Increase	No change	<input type="checkbox"/>
C	No change	Increase	<input type="checkbox"/>
D	Fall	Increase	<input type="checkbox"/>
E	Increase	Fall	<input type="checkbox"/>

7. A significant increase in consumer spending is most likely to affect the economy in which of the following ways? [1]

	Unemployment	Inflation	Current Account	Budget balance	ANSWER Tick (✓) one box only
A	Fall	Rise	Worsen	Worsen	<input type="checkbox"/>
B	Rise	Fall	Improve	Worsen	<input type="checkbox"/>
C	Fall	Rise	Improve	Improve	<input type="checkbox"/>
D	Fall	Rise	Worsen	Improve	<input type="checkbox"/>
E	Rise	Rise	Improve	Worsen	<input type="checkbox"/>

8. Study the chart below:

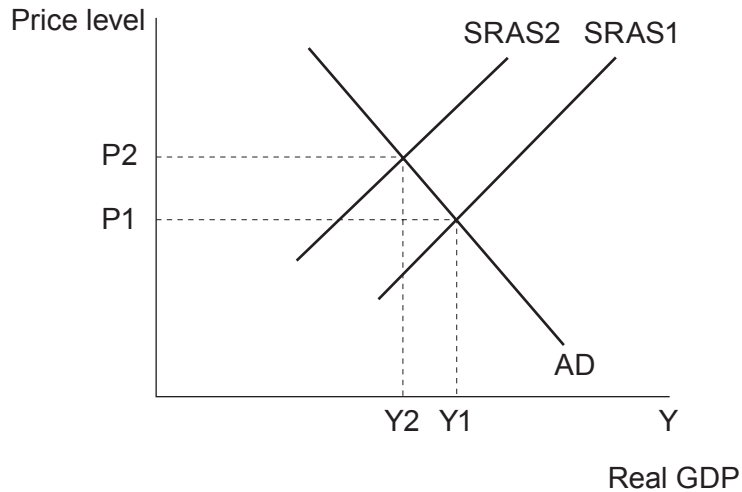


It can be concluded that over the period shown, Greece's GDP was:

[1]

	ANSWER Tick (✓) one box only
A Highest at the end of the period	<input type="checkbox"/>
B Highest in the second quarter of 2015	<input type="checkbox"/>
C Highest in the third quarter of 2014	<input type="checkbox"/>
D Lowest at the start of the period	<input type="checkbox"/>
E Highest at the start of the period	<input type="checkbox"/>

9. Which **one** of the following is most likely to have caused the shift from SRAS1 to SRAS2 in the diagram below? [1]

**ANSWER**Tick (✓) **one** box only

- | | | |
|----------|----------------------------------|--------------------------|
| A | An increase in consumption | <input type="checkbox"/> |
| B | An increase in the price level | <input type="checkbox"/> |
| C | An increase in wages | <input type="checkbox"/> |
| D | An increase in the exchange rate | <input type="checkbox"/> |
| E | An increase in immigration | <input type="checkbox"/> |

10. As the price of a product rises following an increase in production costs which **one** of the following will rise? [1]

ANSWERTick (✓) **one** box only

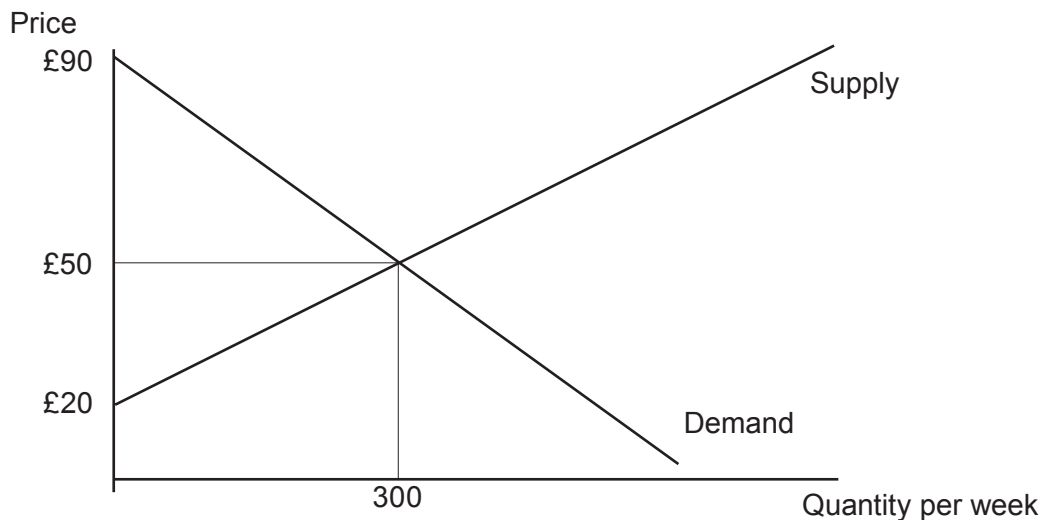
- | | | |
|----------|-------------------|--------------------------|
| A | Consumer surplus | <input type="checkbox"/> |
| B | Marginal utility | <input type="checkbox"/> |
| C | Quantity supplied | <input type="checkbox"/> |
| D | Total utility | <input type="checkbox"/> |
| E | Quantity demanded | <input type="checkbox"/> |

11. If the central bank reverses its policy of quantitative easing by selling government bonds to financial markets then the most likely economic effect will be to: [1]

ANSWER
Tick (✓) **one box only**

- | | | |
|----------|--|--------------------------|
| A | Increase the size of the national debt | <input type="checkbox"/> |
| B | Reduce long term interest rates | <input type="checkbox"/> |
| C | Increase the size of the fiscal (budget) deficit | <input type="checkbox"/> |
| D | Reduce the rate of growth of the money supply | <input type="checkbox"/> |
| E | Increase the rate of inflation | <input type="checkbox"/> |

12. The diagram below shows the market for a product in equilibrium at a price of £50 and quantity of 300 units per week.



What is the value of the producer surplus in the above diagram?

[1]

ANSWER
Tick (✓) **one box only**

- | | | |
|----------|---------|--------------------------|
| A | £4 500 | <input type="checkbox"/> |
| B | £6 000 | <input type="checkbox"/> |
| C | £7 500 | <input type="checkbox"/> |
| D | £10 500 | <input type="checkbox"/> |
| E | £15 000 | <input type="checkbox"/> |

13. Aggregate demand in an economy is £1 400bn, Consumption = £800bn, Investment = £400bn, Government spending = £300bn and Exports = £100bn.

What is the level of imports?

[1]

ANSWER
Tick (✓) **one box only**

- | | | |
|----------|--------|--------------------------|
| A | £100bn | <input type="checkbox"/> |
| B | £200bn | <input type="checkbox"/> |
| C | £300bn | <input type="checkbox"/> |
| D | £400bn | <input type="checkbox"/> |
| E | £500bn | <input type="checkbox"/> |

14. Which **one** of the following do you generally associate with a prolonged period of deflation in an economy?

[1]

ANSWER
Tick (✓) **one box only**

- | | | |
|----------|----------------------------------|--------------------------|
| A | A rise in investment | <input type="checkbox"/> |
| B | A fall in the real value of debt | <input type="checkbox"/> |
| C | A rise in consumer spending | <input type="checkbox"/> |
| D | A rise in the level of imports | <input type="checkbox"/> |
| E | A rise in real interest rates | <input type="checkbox"/> |

15. The substitution and income effects of a price change are associated with the slope of the:

[1]

ANSWER
Tick (✓) **one box only**

- | | | |
|----------|---------------------------------|--------------------------|
| A | Supply curve for a product | <input type="checkbox"/> |
| B | Aggregate demand curve | <input type="checkbox"/> |
| C | Production possibility frontier | <input type="checkbox"/> |
| D | Demand curve for a product | <input type="checkbox"/> |
| E | Aggregate supply curve | <input type="checkbox"/> |

16. In the matrix below two firms A and B are selling a homogeneous product. They are both considering a pricing strategy unaware of the other firm's intentions and neither trusts each other. The profits each firm could make by selling at a price of £4 or £3 are shown in the matrix below.

		<i>Firm B</i>	
		£3	£4
Firm A	£3	£15m, £15m	£30m, £10m
	£4	£10m, £30m	£20m, £20m

It can be deduced that the Nash equilibrium occurs when:

[1]

ANSWERTick (✓) **one box only**

- A** Both firms sell the product for £4
- B** Firm A sells for £4 and Firm B for £3
- C** Firm A sells for £3 and Firm B for £4
- D** Both firms sell the product for £3
- E** None of the above – there is no Nash equilibrium in this case

17. Following a sharp depreciation of a country's foreign exchange rate all of the following are likely **except**:

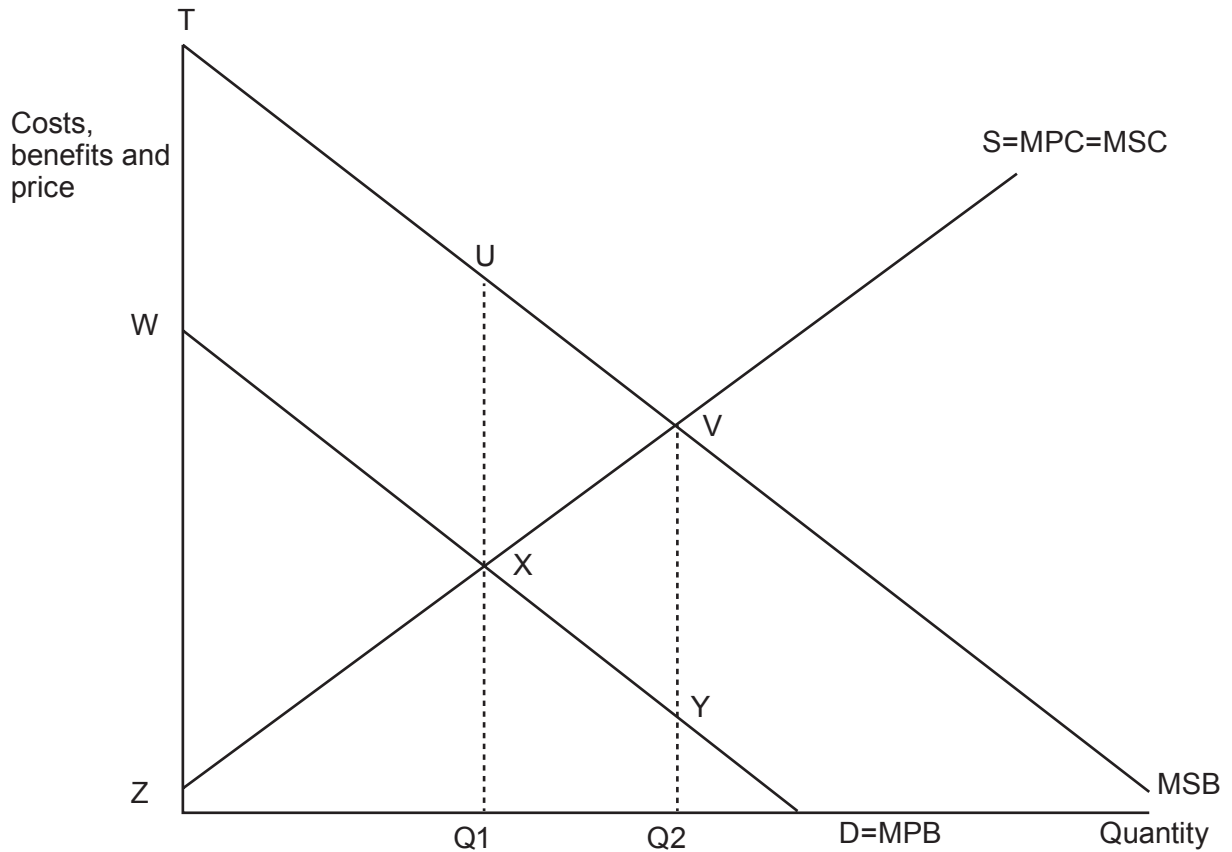
[1]

ANSWERTick (✓) **one box only**

- A** An improvement in the price competitiveness of exports
- B** A decrease in the balance of trade deficit
- C** A rise in import prices
- D** An increase in aggregate demand
- E** An improvement in the terms of trade

18. The diagram below shows the market for a good with external benefits in consumption:

MPC = Marginal private cost
 MSC = Marginal social cost
 MPB = Marginal private benefit
 MSB = Marginal social benefit



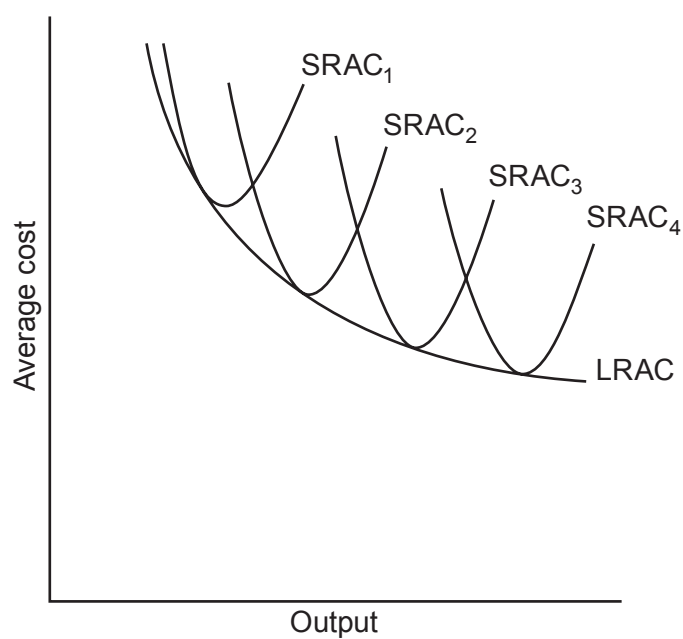
Which **one** of the following can be deduced from the above diagram? [1]

	Market equilibrium is at:	Socially optimal output is at:	The area of welfare loss is:	ANSWER Tick (✓) one box only
A	Q1	Q2	UVX	<input type="checkbox"/>
B	Q1	Q2	VXY	<input type="checkbox"/>
C	Q1	Q2	WXZ	<input type="checkbox"/>
D	Q2	Q1	UVX	<input type="checkbox"/>
E	Q2	Q1	TVZ	<input type="checkbox"/>

19. A sharp increase in both supply and demand in a market would be likely to do which one of the following? [1]

	Equilibrium Price	Equilibrium Quantity	ANSWER <i>Tick (✓) one box only</i>
A	Increase	Increase	<input type="checkbox"/>
B	Decrease	Increase	<input type="checkbox"/>
C	Unchanged	Increase	<input type="checkbox"/>
D	Cannot be sure	Cannot be sure	<input type="checkbox"/>
E	Cannot be sure	Increase	<input type="checkbox"/>

20. The diagram below shows the short run and long run average cost curves for a firm.



Based on this diagram it is likely that as output increases the firm will experience: [1]

	In the short run	In the long run	ANSWER Tick (✓) one box only
A	Increasing returns to the variable factor	Economies of scale	<input type="checkbox"/>
B	Diminishing returns to the variable factor	Economies of scale	<input type="checkbox"/>
C	Economies of scale	Diseconomies of scale	<input type="checkbox"/>
D	Increasing returns to the variable factor	Diseconomies of scale	<input type="checkbox"/>
E	Diseconomies of scale	Economies of scale	<input type="checkbox"/>

SECTION B

Answer all the questions in the spaces provided.

21. Explain, using a demand and supply diagram, why in theory a rise in demand for music downloads will have no effect on their equilibrium price. [4]

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22. Suppose a firm is initially selling 500 units of good X at a price of £3 per unit. Cross price elasticity of demand between good X and good Y is +1.5. If the price of good Y falls from £20 to £16, calculate the expected new level of revenue that the firm will receive from the sales of X after the price of Y is cut, assuming that the price of X remains the same. [2]

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23. Between 2001 and 2015 the UK's GDP rose from £1.034tn to £1.809tn. Over the same period, the Consumer Prices Index (CPI) rose from 72.25 to 100.25. What was the approximate change (rounded to the nearest whole %) in the UK's real GDP over the period? [2]

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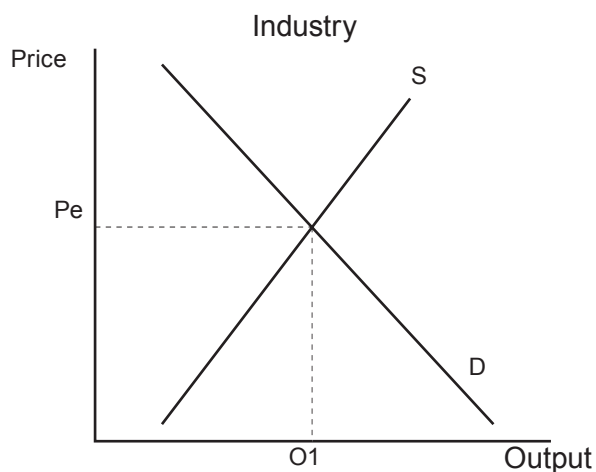
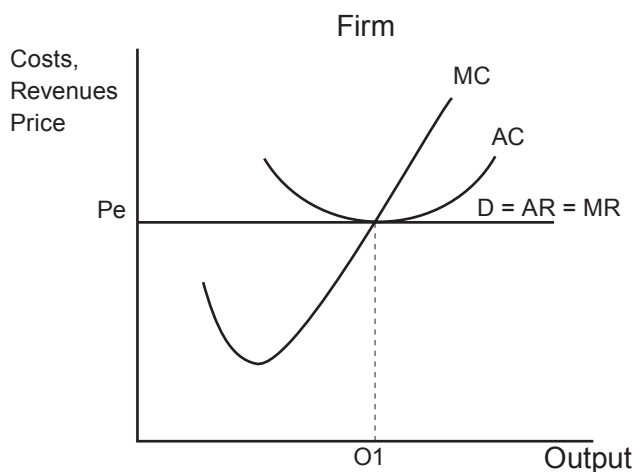
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24. The diagrams below show a firm and industry in perfect competition.



- (a) Adapt the diagrams to show the impact of a significant fall in industry demand on the firm's price, output and profit. [3]
- (b) Explain what will happen in this industry in the long run. [3]

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25. SLASH TOP TAX RATE TO 40%, OSBORNE TOLD

George Osborne last night faced fresh calls to cut the top income tax rate after it emerged that reducing it to 45% from 50% raised an extra £8bn. Figures released by HM Revenue and Customs yesterday revealed a huge rise in the amount paid in tax by high income earners following the Chancellor’s decision to reduce the top rate of tax from 50%.

With the aid of a diagram discuss the case for cutting the top rate of tax from 45% to 40%. [8]

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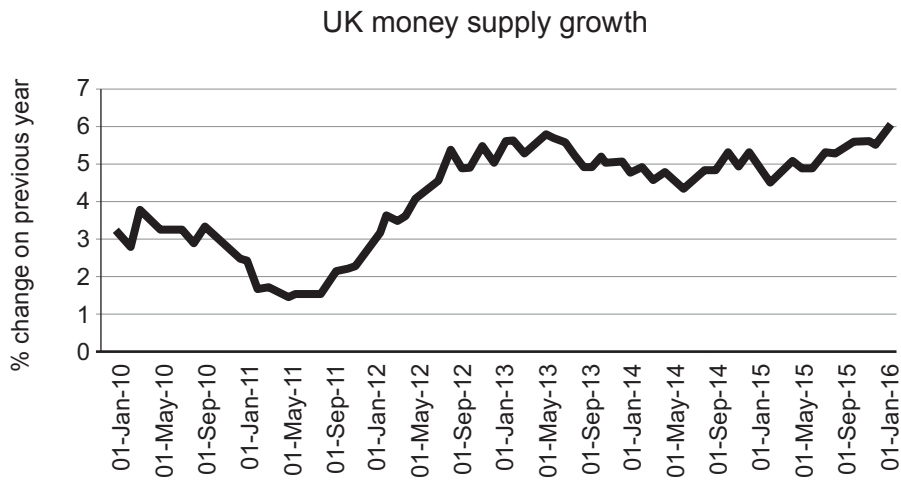
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26. Study the data on changes in the UK money supply in the chart below.



With reference to the quantity theory of money and the above data, assess the possible inflationary effects on the UK economy of the changes in the rate of growth of the money supply shown. [8]

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27. The table below gives information on the prices of Brazil's exports and imports.

	Export price index	Import price index
April 2015	124.44	123.38
January 2016	107.45	111.87

Calculate the change in Brazil's terms of trade between April 2015 and January 2016. [2]

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