Surname	Centre Number	Candidate Number
First name(s)		2

GCE A LEVEL

A520U10-1

O20-A520U10-1

MONDAY, 5 OCTOBER 2020 – 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	**8**	
22	**8**	
23	**8**	
24	**8**	
25	**8**	
Total	**60**	

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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.

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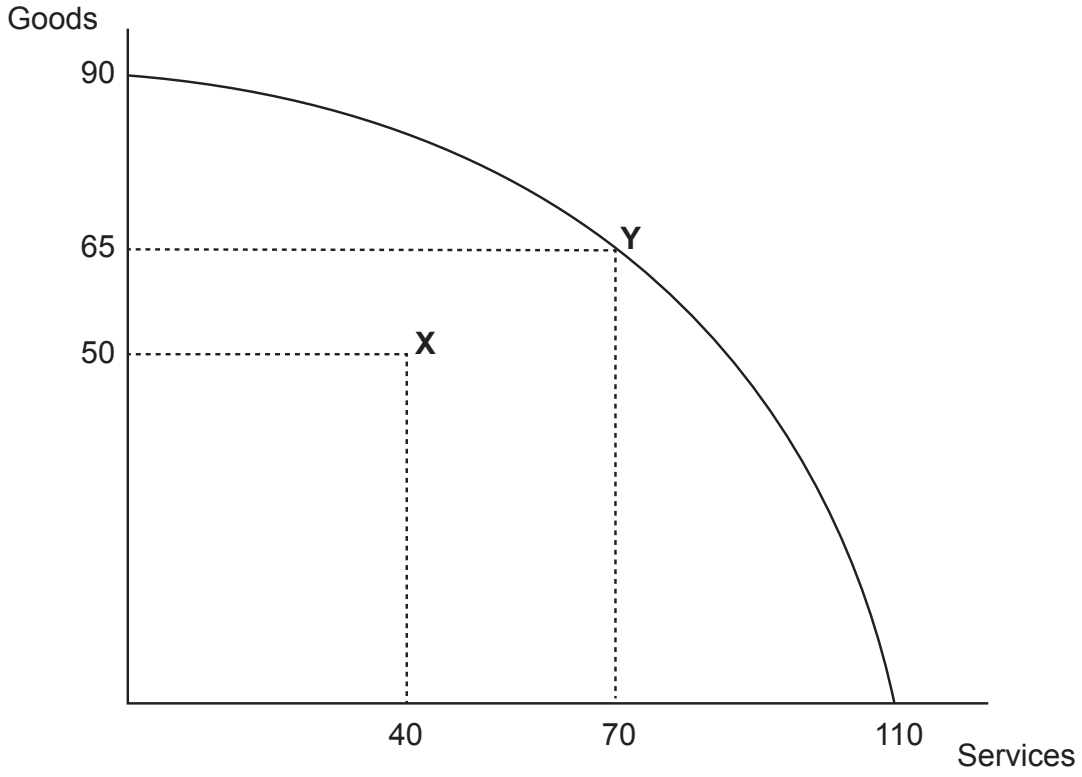
SECTION A

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. The diagram below shows the production possibility frontier for an economy:



The opportunity cost for an economy of moving from point X to point Y is: [1]

A Zero

B 15 goods and 30 services

C 25 goods and 40 services

D 40 goods and 70 services

E 50 goods and 40 services

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2. Study the table below:

Output	Short run total cost	Long run total cost
5	£170	£150
6	£180	£174
7	£196	£196
8	£240	£216
9	£288	£234
10	£340	£250

Over the output range shown in the table, which of the following is true as output increases? [1]

	Short run	Long run
A	Diminishing returns to the variable factor	Diseconomies of scale
B	Diminishing returns to the variable factor	Economies of scale
C	Increasing returns to the variable factor	Economies and then diseconomies of scale
D	Increasing returns to the variable factor	Diseconomies of scale
E	Increasing returns to the variable factor	Economies of scale

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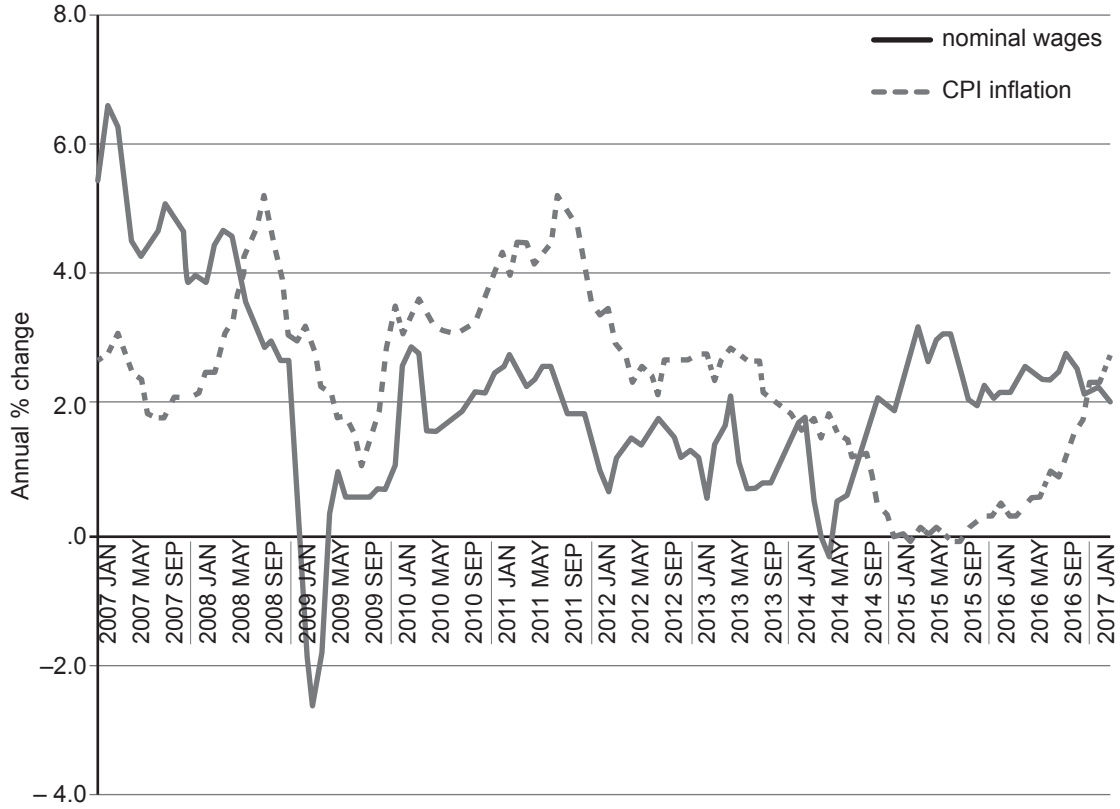
3. The chart below gives information on UK nominal wage growth and inflation:



www.economicshelp.org/Source ONS KAC3 and CPI – D7G7

From the chart, it can be concluded that: [1]

A Between January 2012 and January 2015 prices were falling

B Nominal wages rose throughout the period

C Nominal wages were lower in September 2014 than in May 2008

D Real wages were rising between January 2007 and May 2008

E Real wages were falling between September 2014 and January 2017

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4. Over a 6-month period the exchange rate between the pound sterling (£) and the Singapore dollar (S$) changed from £1=S$1.75 to £1=S$1.85.

The fee for an overseas student taking a course at the LSE (the London School of Economics) was around £17 000 per year. The effect of the change in exchange rate would be to: [1]

A Reduce amount received by the LSE from £17 000 to £16 081 per year

B Increase the amount received by the LSE from £17 000 to £17 971

C Increase the amount paid by a Singaporean student by S$1 700

D Reduce the amount paid by a Singaporean student by S$1 700

E Reduce the fee received by the LSE per student in pounds sterling (£) but increase the amount of Singapore dollars (S$) paid by the student

5. The table below contains information on the HDI (Human Development Index) in Senegal and Ivory Coast:

	HDI
Ivory Coast	0.492
Senegal	0.505

Which of the following can be safely concluded from this information? [1]

A GNI per capita at PPP is higher in Senegal than in Ivory Coast

B GDP per capita is higher in Senegal than in Ivory Coast

C Adult literacy is higher in Senegal than in Ivory Coast

D Child mortality is lower in Senegal than in Ivory Coast

E None of the above

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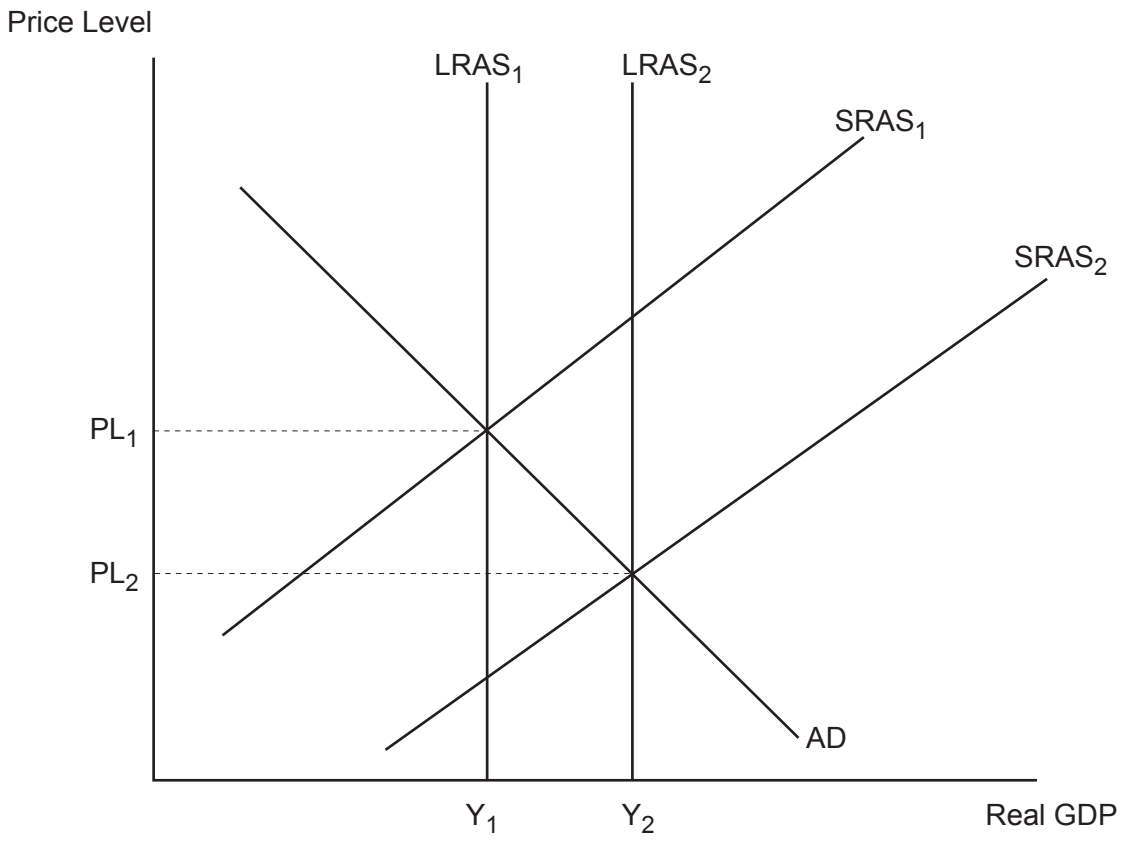
6. Study the AD/AS diagram below:



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

A Falling oil prices and higher labour productivity

B Rising consumer confidence and higher labour productivity

C Rising investment and a rise in the minimum wage

D Falling oil prices and rising consumer confidence

E A higher minimum wage and higher labour productivity

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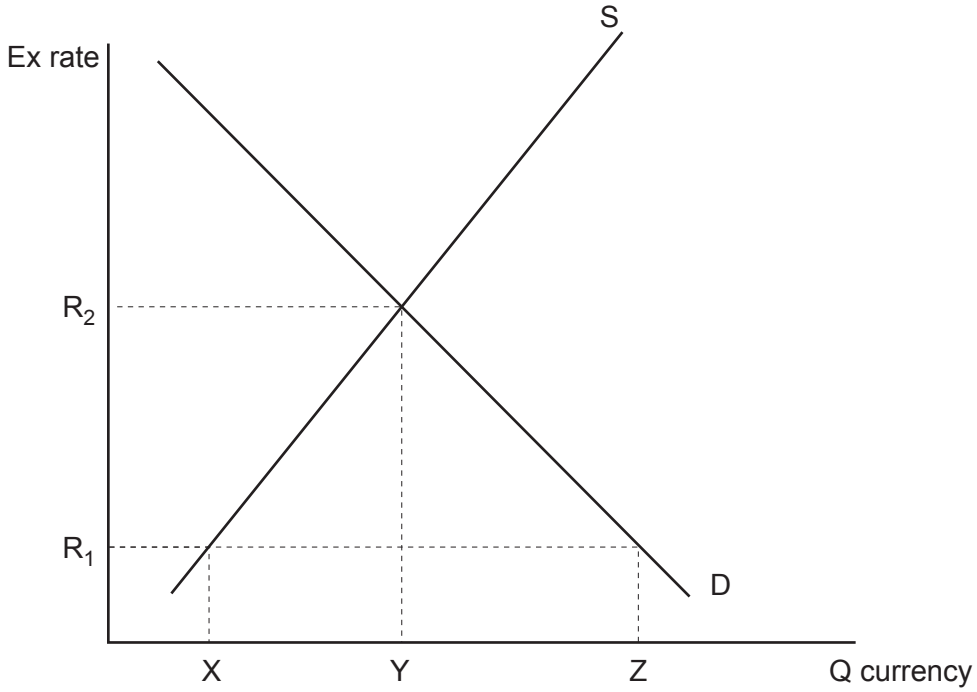
7. Study the exchange rate diagram below:



If the central bank wanted to maintain the exchange rate at R_1, it would need to: [1]

A Buy XZ of its own currency

B Buy XY of its own currency

C Buy YZ of its own currency

D Sell XZ of its own currency

E Sell YZ of its own currency

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8. Which of the following could best be described as an external diseconomy of scale? [1]

A Inefficiencies resulting from a merger between a firm and its supplier

B Communication problems arising from a merger between two firms in the same sector

C Higher labour costs due to new firms entering the industry and competing for workers

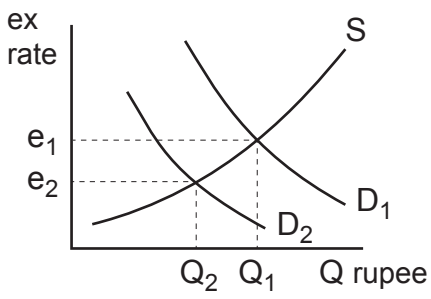
D A rise in interest rates leading to an increase in the repayments on the firm's existing loans

E Coordination problems arising from a firm's decision to open a subsidiary in another country

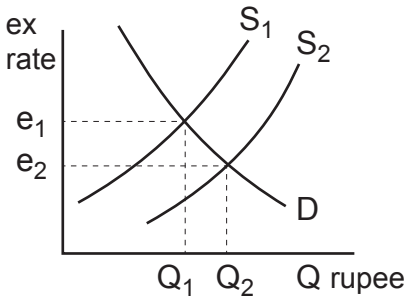
9. The Indian rupee (the Indian currency) depreciated to a record low after the country's trade deficit widened to a five-year high because petroleum imports rose sharply.

Which one of the possible exchange rate diagrams below best reflects the situation described? [1]

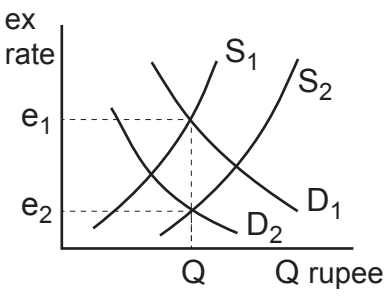
A



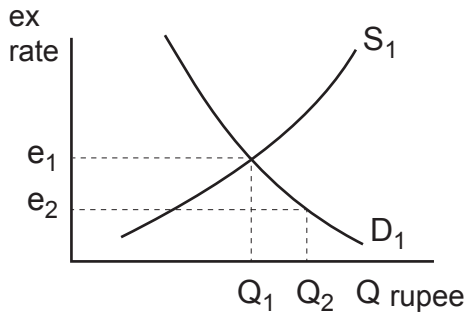
B



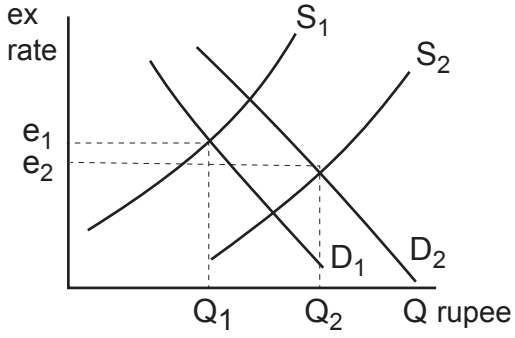
C



D



E



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10. Study the table on elasticities below:

	PED	XED between X and Y	YED
Good X	-0.7	+1.1	-0.3
Good Y	-0.9	+1.1	+0.5

It can be concluded that: [1]

A Goods X and Y are substitutes and are both normal goods

B Goods X and Y are substitutes and both have price inelastic demand

C Goods X and Y are complements and good X is normal, but good Y is inferior

D Goods X and Y are complements and have price inelastic demand

E Good X is inferior, good Y is normal and both goods have price elastic demand

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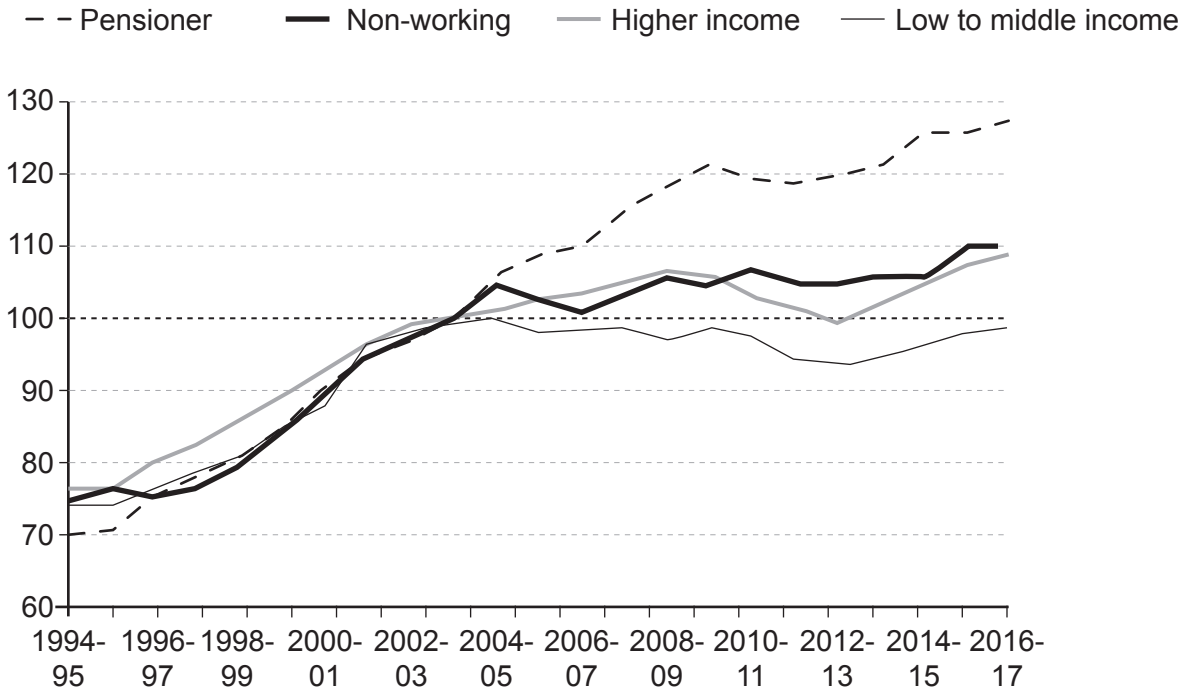
11. The chart below gives information on changes in household disposable income for different household groups in the UK:

Changes in household disposable income since 1994-95



Note: Index of real median household disposable income 2003-4 = 100

Source: BBC

Which of the following can be safely concluded? [1]

A In 2016-17 the real median household disposable income of pensioner households was approximately 30% higher than that of low to middle income households

B The real median household disposable income of pensioner households in (2016-17) was about 27% higher than in 1994-95

C The real median household disposable income of low to middle income households was lower in 2012-13 than in (2003-04)

D The real median household disposable income of pensioner households rose throughout the period

E The real median household disposable income of the four groups shown were equal in 2003/04

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12. Assuming that the Marshall-Lerner condition holds, a depreciation in the exchange rate would be most likely to have which of the following effects? [1]

	Terms of Trade	Current account balance
A	No effect	Improve
B	Improve	Improve
C	Improve	Worsen
D	Worsen	Worsen
E	Worsen	Improve

13. The table below gives a set of different economic indicators for an economy in £billions.

	National income	Exports	Government spending	Investment	Imports	Tax	Saving
A	800	200	250	150	225	275	200
B	900	200	250	150	250	175	200
C	1 000	200	250	150	125	175	200
D	1 100	200	250	150	250	300	100
E	1 200	200	250	150	200	200	200

In which situation (**A**, **B**, **C**, **D** or **E**) would national income be expected to rise? [1]

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14. The table below gives index numbers of unit labour costs in selected economic areas:

Index of unit labour costs, selected economic areas (2010=100)

	2010	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Brazil	100	95.1	77.3	80.6	91.2	86.0	87.4
China	100	123.8	137.6	133.3	130.9	137.7	139.7
Euro area	100	96.5	91.0	93.4	92.9	96.0	94.8
United Kingdom	100	102.4	109.6	99.4	94.0	97.9	97.9
United States	100	100.7	114.3	118.9	117.5	112.6	112.6

It can be concluded that: [1]

A Unit labour costs were lower in Brazil, the euro area and the UK in 2019 than they were in 2014

B Brazil had the lowest unit labour costs of the economic areas shown in 2019

C Unit labour costs rose by 15.9% in China between 2014 and 2019

D Unit labour costs in the euro area fell in every year over the period shown

E The UK's labour force has become less competitive against the USA's labour force over the period shown

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15. According to neo-classical economists, an increase in the level of aggregate demand will have which of the following effects in the short run (SR) and long run (LR)? [1]

	Short run (SR)		Long run (LR)	
	Price level (SR)	Output (SR)	Price level (LR)	Output (LR)
A	Rise	No change	Rise	Rise
B	No change	No change	Rise	Rise
C	Rise	Rise	No change	Rise
D	No change	Rise	Rise	No change
E	Rise	Rise	Rise	No change

16. Firms X and Y compete in the same market. Currently Firm X is seen as having both higher quality and being better value for money than Firm Y. Each firm is considering possible future strategies – to cut price to improve value for money or to advertise to improve consumers' views of quality.

The grid below shows the forecast outcomes for different combinations of decisions:

		Firm Y	
		Cut price	**Advertise**
Firm X	*Cut price*	*£20m*, **£15m**	*£15m*, **£20m**
	Advertise	*£10m*, **£20m**	*£20m*, **£15m**

Which combination of strategies, if any, will lead to a Nash equilibrium in this case? [1]

	Firm X's strategy	Firm Y's strategy
A	Cut price	Cut price
B	Cut price	Advertise
C	Advertise	Cut price
D	Advertise	Advertise
E	No Nash equilibrium in this case	

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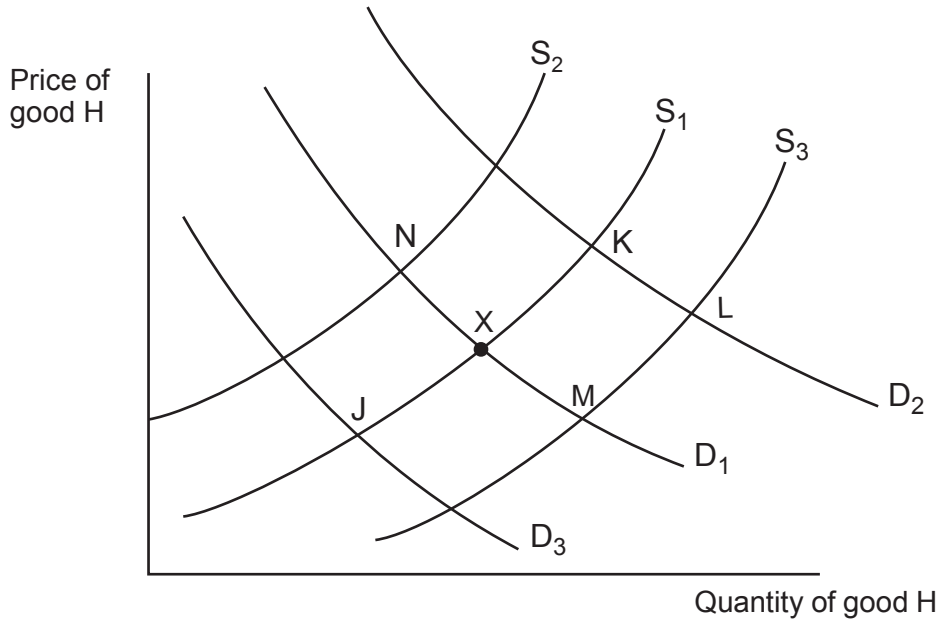
17. Cross-price elasticity of demand between good G and good H is negative. Assuming that the market for good H is initially in equilibrium at point X, which point would show the new equilibrium in the market for good H following a cut in VAT on good G? [1]



A Point J

B Point K

C Point L

D Point M

E Point N

18. A decision to reverse QE (quantitative easing) would be most likely to reduce: [1]

A Bond prices

B Unemployment

C The exchange rate

D Market interest rates

E The level of domestic saving

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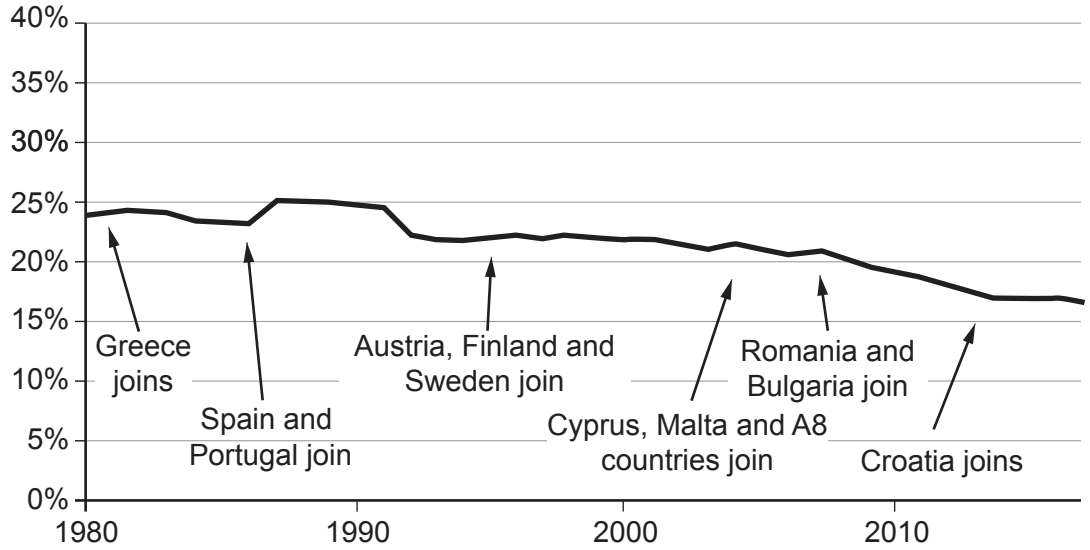
19. Study the chart below:

EU's share of the world's economy (GDP at PPP)



Which of the following can be concluded from the chart over the period shown? [1]

A Global GDP fell over the period

B New countries joining the EU reduced the EU's GDP

C The EU's GDP fell over the period shown

D The rest of the world's economies grew relatively faster than the EU

E Smaller trade blocs have more impact on the global economy

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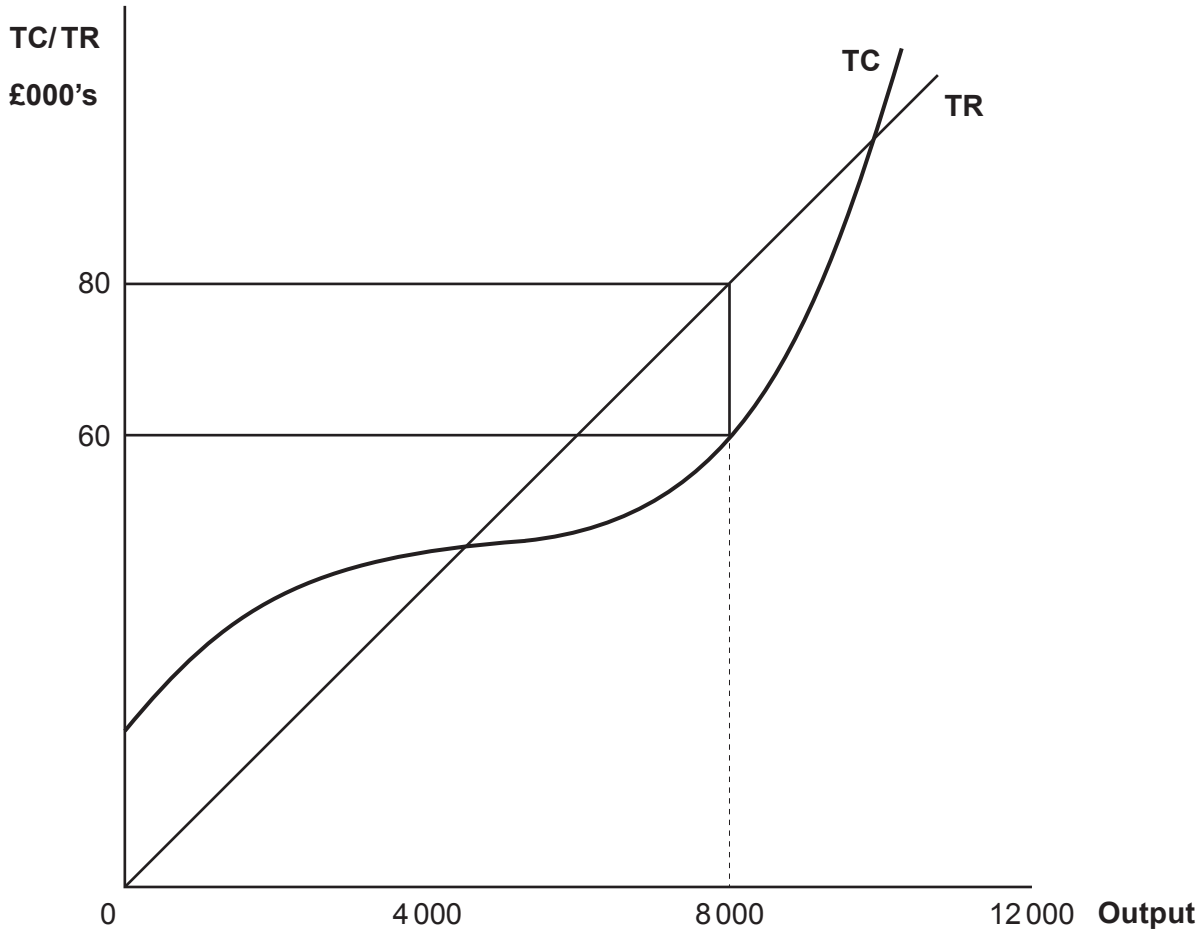
20. The diagram below shows the total revenue and total costs of a profit maximising firm which is producing an output of 8 000 units.



This diagram is a representation of: [1]

A Perfect competition in the short run

B Monopolistic competition in the long run

C Perfect competition in the long run

D Monopolistic competition in the short run

E Monopoly

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SECTION B

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

21. Fears over Brexit driving growth but not profit for the UK's food and drink industry

September 28, 2018 | PRESS RELEASE

- The weak pound saw international exports for UK food and drink producers increase by 14%
- However, inflation in raw material prices caused by a depreciation in sterling reduced producers' profits
- Wage cost per employee has continued to rise
- This has meant that even though revenue from overseas sales has increased, overall profits have fallen

Adapting the diagram opposite, analyse the impact of the factors above on the profits of the UK food and drink sector. [8]

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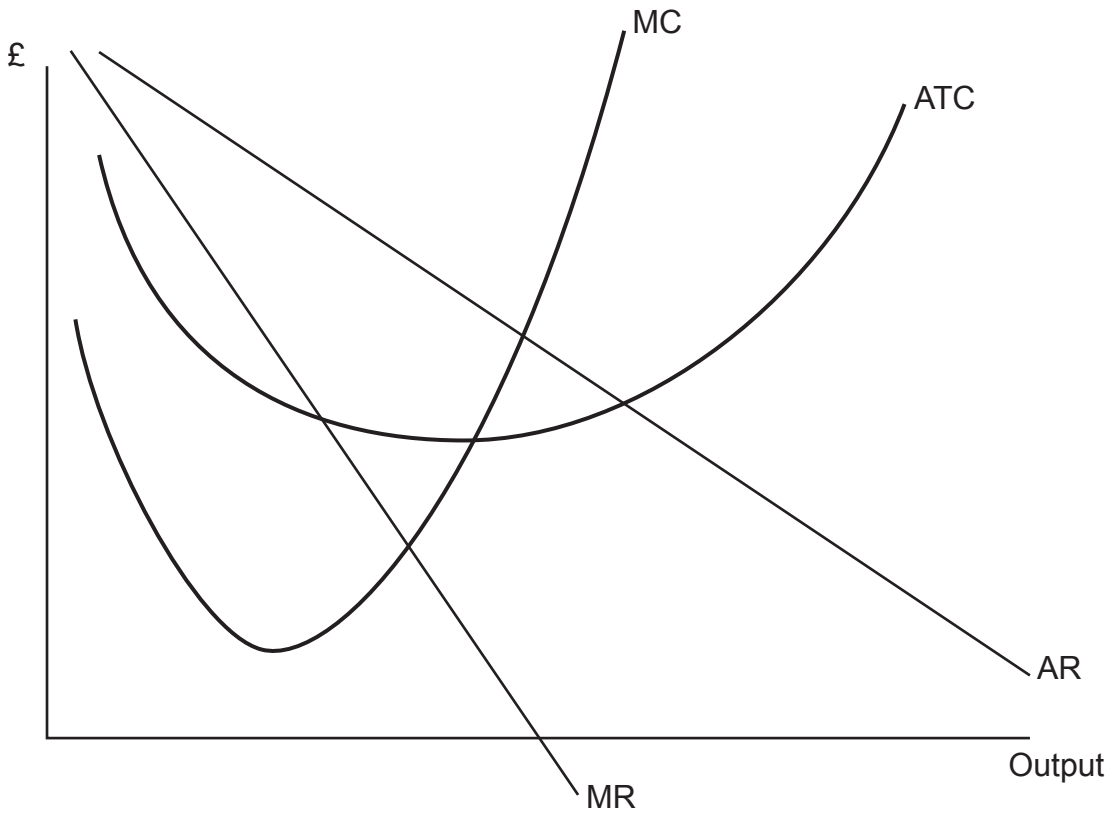

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22. 'Sugar tax' cuts sales of fizzy drinks at Jamie Oliver's restaurants

An increase in the price of sugary fizzy drinks in Jamie Oliver's restaurants has had a significant effect on sales, according to a recent study. An in-house 'tax' of just 10p (about 3.5%) resulted in an 11% drop in sales of these 'unhealthy' drinks. At the same time fruit juice sales in the same restaurants (for which price remained the same) rose by 22%. Sugary drinks are believed to be responsible for as much as half of the excess calories consumed per day by children, contributing to the UK's obesity problem.

Source: Daily Telegraph 17th October 2017 (adapted)

Using a diagram and with reference to the context, discuss the extent to which taxes on sugary fizzy drinks are likely to be effective in correcting market failure. [8]

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23. Study the data on incomes and human development below:

Country	GNI per capita at PPP ($)	HDI
Brazil	14 145	0.754
Chile	21 665	0.847
Cuba	7 455	0.775
Equatorial Guinea	21 597	0.592
Ethiopia	1 523	0.488
France	38 085	0.897
New Zealand	32 870	0.915
Nigeria	5 443	0.527
Tonga	5 284	0.721

Using the data, discuss the extent to which increases in national income are likely to cause increases in economic development. [8]

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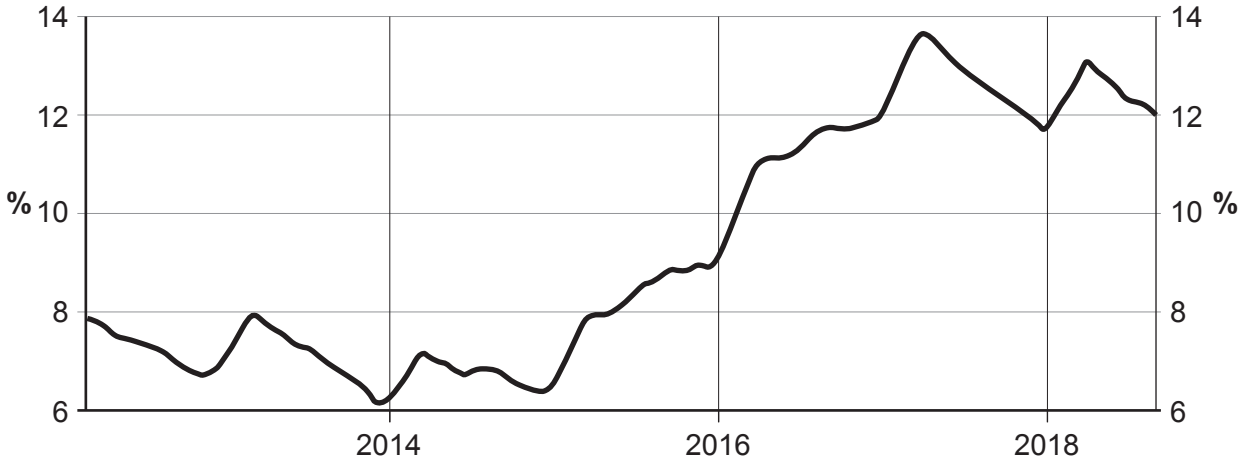
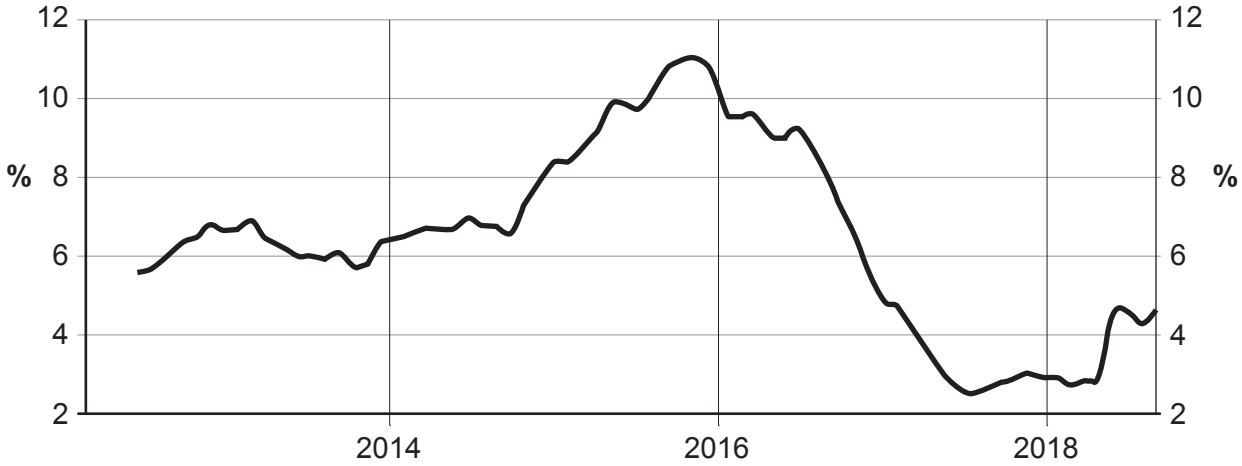
24. The charts below show Brazil's unemployment and inflation rates between 2013 and 2018:

BRAZIL UNEMPLOYMENT RATE



SOURCE: TRADINGECONOMICS.COM

BRAZIL INFLATION RATE



SOURCE: TRADINGECONOMICS.COM

With reference to the data and the concept of the Phillips curve, discuss how changes in the unemployment rate may affect the inflation rate. [8]

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25. A firm faces the following cost situation for one of its products:

Output per day	Unit cost (average total cost)
1-100	£9
101-200	£8
201-300	£7.50
301-400	£7
401-500	£7.50
501+	£8

Currently the firm sells 350 units per day at a price of £10.
Price elasticity of demand is estimated to be –2.

Using calculations, discuss whether a cut in price to £9 would be beneficial for the firm. [8]

END OF PAPER

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