Surname	Centre Number	Candidate Number
Other Names		2

GCE A LEVEL

A520U10-1

S18-A520U10-1

ECONOMICS – A level component 1
Economic Principles

TUESDAY, 5 JUNE 2018 – AFTERNOON

1 hour 30 minutes

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

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01

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 construction of the HS2 rail link from London to the North of England creates an opportunity cost in the form of: [1]

A A fall in house prices along the route of the HS2 rail link

B The road infrastructure that could have been built with the same resources

C The loss of jobs in London following the completion of the HS2 rail link

D A fall in demand for domestic air travel between London and the North

E A rise in rail fares to help pay for the construction of HS2 rail link

2. Evidence from the US suggests that price elasticity of demand for rib-eye steak is about –2.1. Suppose that price is currently \$22 per kg and that sales are 2000kg per week. A price reduction to \$19.80 per kg would mean that the new revenue from rib-eye steak sales would be: [1]

A \$39 600

B \$40 432

C \$44 000

D \$47 916

E \$53 240

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3. Which one of the following would be most likely to bring about a rightward shift in the demand curve for labour? [1]

A A fall in the wage rate

B An increase in UK base interest rates

C A rise in the National Living Wage

D A rise in labour productivity

E A fall in the cost of capital/machinery

4. The cost to the government of introducing a guaranteed minimum price for an agricultural product above the free market equilibrium will be greatest if: [1]

A Demand and supply are both price inelastic

B Demand is price elastic but supply is price inelastic

C Demand is price inelastic but supply is price elastic

D Demand and supply both have unitary price elasticity

E Demand and supply are both price elastic

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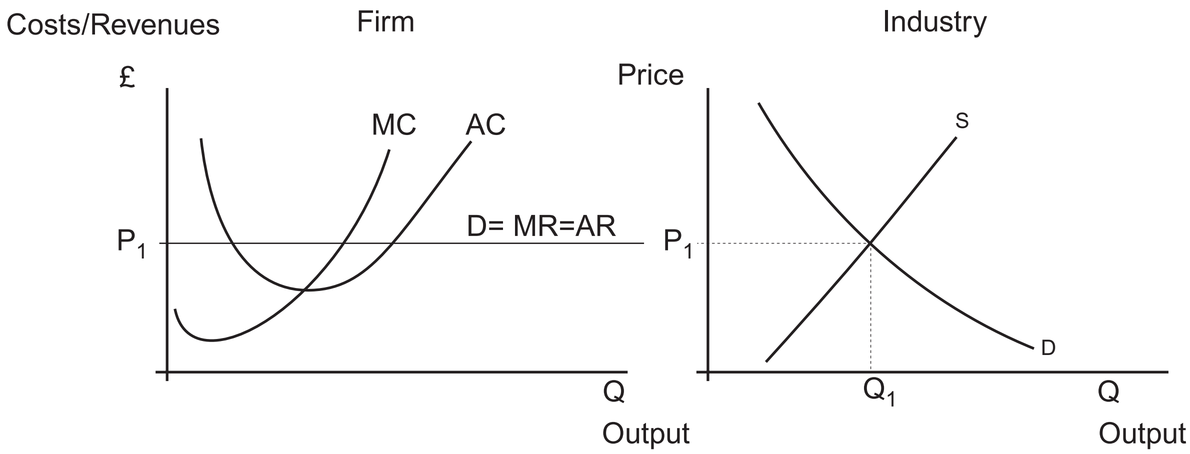
5. The diagram below shows the short run equilibrium for a firm and industry in perfect competition.



In the long run, which one of the following would be most likely to happen to both the firm and the industry? [1]

	Output of a firm	**Output of the industry**	**Profit for a firm**
A	Rise	Fall	Rise
B	Fall	Rise	Fall
C	Unchanged	Unchanged	Rise
D	Unchanged	Rise	Fall
E	Fall	Fall	Fall

6. Following the removal of a tariff on a major imported product, which of the following would be expected to happen in the domestic market for that product? [1]

	Consumer surplus	**Domestic producer surplus**	**Output of domestic firms**	**Total quantity of the product bought**
A	Rise	Rise	Fall	Rise
B	Fall	Fall	Fall	Rise
C	Rise	Fall	Fall	Rise
D	Fall	Rise	Rise	Fall
E	Rise	Rise	Rise	Fall

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7. The table below shows the index of export prices and the index of import prices for a country over a six-year period.

Year	Index of export prices	Index of import prices
1	100	100
2	108	110
3	120	115
4	120	123
5	125	125
6	131	130

In which year were the terms of trade most favourable relative to year 1 (the base year)? [1]

A Year 2

B Year 3

C Year 4

D Year 5

E Year 6

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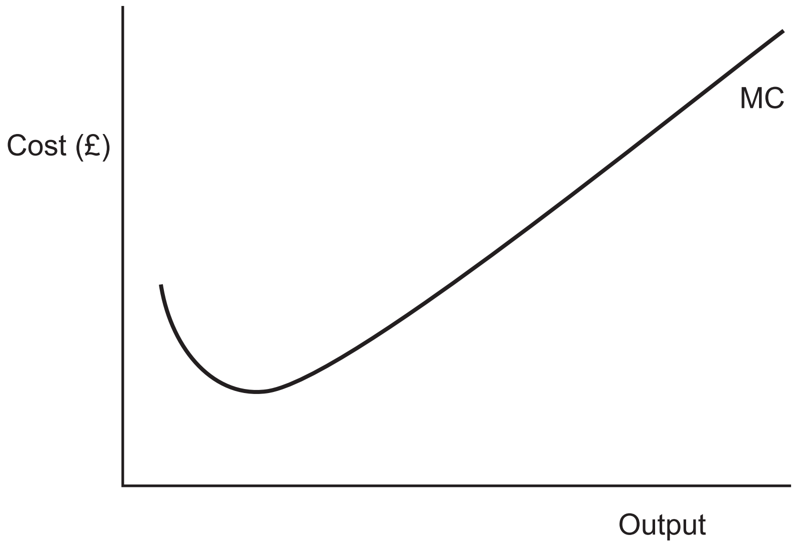
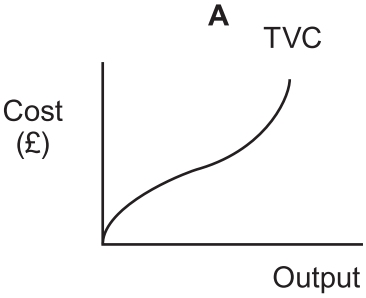
8. The diagram below shows a firm's marginal cost (MC) curve:



Which of the following total variable cost curves is most likely for a firm with the marginal cost curve shown above? [1]

A



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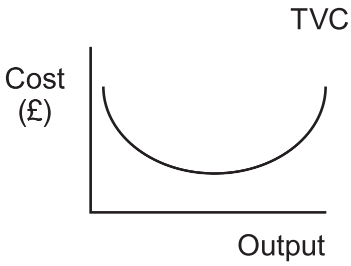

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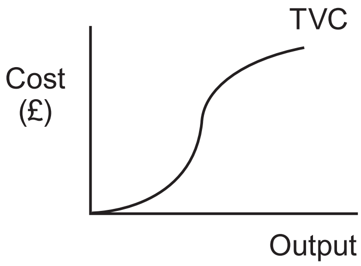

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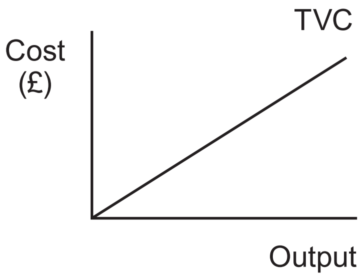

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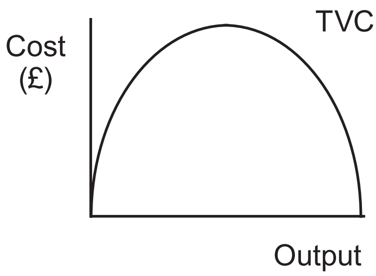

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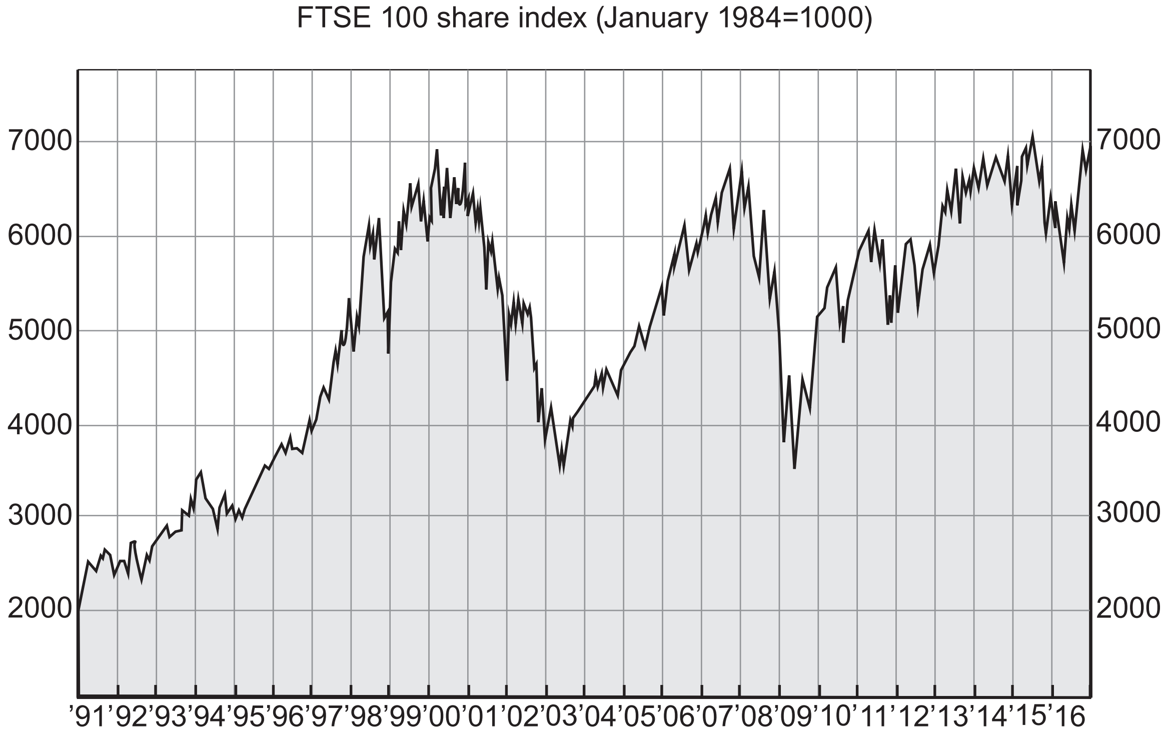
9. The chart below shows the FTSE 100 share index between January 1991 and October 2016.



What is the approximate percentage change in the FTSE 100 index over the period shown? [1]

A 71.4%

B 250%

C 350%

D 600%

E 5000%

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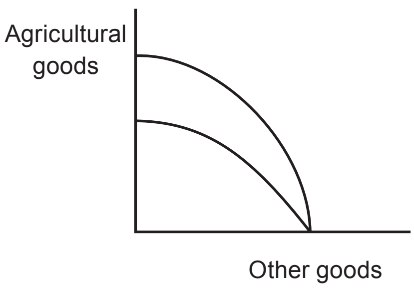
10. Over the last 15 years the Indonesian government has successfully targeted poorly educated farmers in low productivity regions with information about best agricultural practice and innovative techniques. Over the same period, Indonesia's population has grown on average by about 1.3% per year.

Which diagram best illustrates the impact of these changes on Indonesia's production possibility curve? [1]

A



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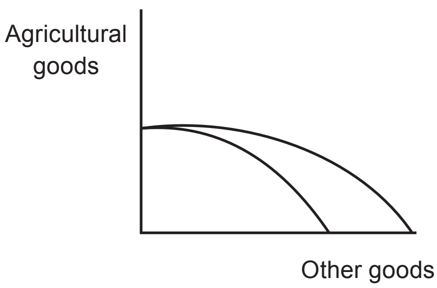

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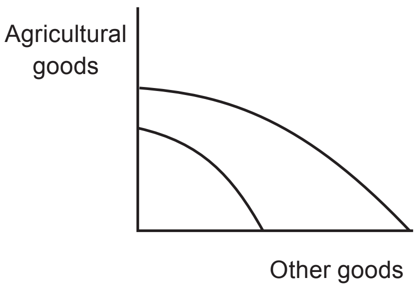

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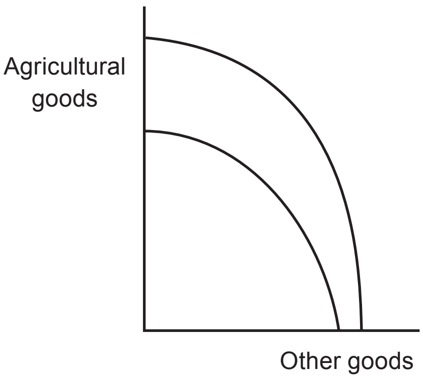

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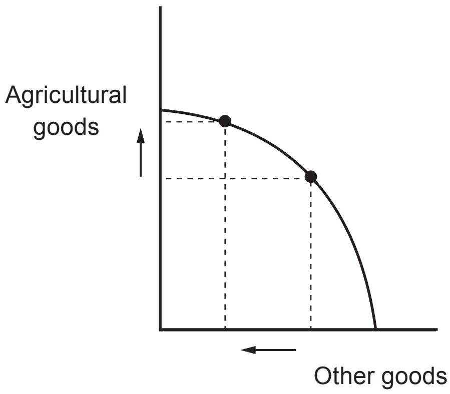

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11. The table below shows the total costs for a firm at different levels of output:

Output	Total cost
0	£100
1	£110
2	£118
3	£130
4	£145
5	£165
6	£200

The average variable cost of making 5 units is: [1]

A £13

B £20

C £33

D £65

E £153.80

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12. An expansion of the Bank of England's quantitative easing programme would be most likely to lead **directly** to: [1]

A A fall in the Bank of England's base interest rate

B A fall in unemployment

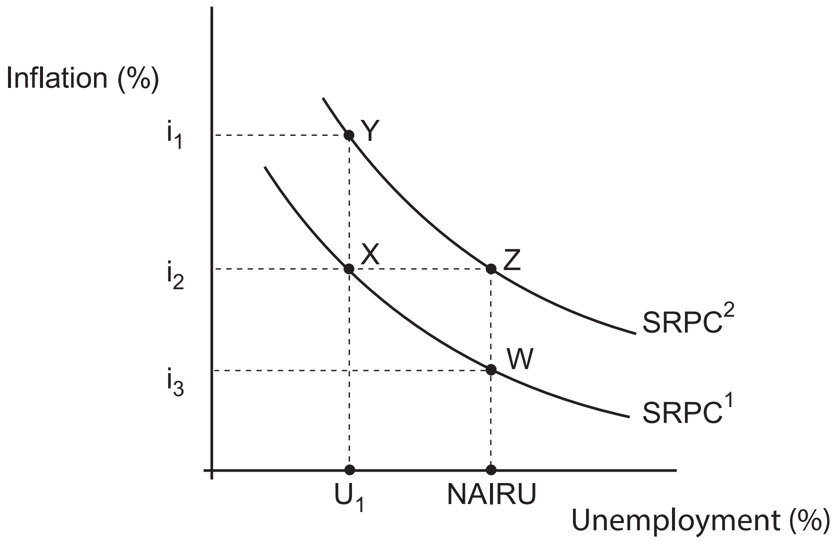
C A rise in bond yields

D An increase in the exchange rate

E A rise in bond prices

Examiner only

13. In the Phillips curve diagram below, the movement from Y to Z is most likely to be explained by: [1]



SRPC = Short run Phillips curve

NAIRU = Non-accelerating Inflation rate of unemployment (natural rate of unemployment)

A A fall in inflationary expectations

B A return to the NAIRU with inflationary expectations unchanged

C A fall in real wages allowing the economy to self-stabilise

D An extension in aggregate demand

E Government policy to reflate the economy

Examiner only

14. The table below shows the output and costs for a firm producing hand-made beds over a three-month period:

		October	November	December
	Output	500 units	450 units	400 units
A	Heating	£400	£500	£600
B	Lighting	£100	£110	£120
C	Wood	£250	£225	£200
D	Interest payments	£200	£225	£225
E	Insurance	£200	£0	£0

Which one of the costs is a variable cost? [1]

A Heating

B Lighting

C Wood

D Interest payments

E Insurance

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15. Two countries, Stephenia and Colinia, can produce the following output of either good X or good Y with one worker:

	Units of good X		Units of good Y
Colinia	200	**or**	160
Stephenia	100	**or**	50

Assuming that there are no transport costs, which of the following statements best summarises the trade possibilities? [1]

A Trade is not possible because Colinia is more efficient in both X and Y

B Trade is possible and Colinia has a comparative advantage in X and Stephenia has a comparative advantage in Y

C Trade is not possible because Colinia has a comparative advantage in both X and Y

D Trade is possible and Colinia has a comparative advantage in Y and Stephenia has a comparative advantage in X

E Trade is possible and Colinia has absolute advantage in X and Stephenia has absolute advantage in Y

16. A perfectly competitive firm faces the following cost and revenue situation when operating at its profit maximising output of 10 000 units.

Price per unit: £20
Variable cost per unit: £18
Fixed cost per unit: £5

Other things being equal, the firm should: [1]

A Continue as it is in the short run, but close in the long run

B Increase output to spread the fixed costs over more units

C Shut down immediately because average total cost is above average revenue

D Increase price to over £23

E Reduce output in order to reduce costs

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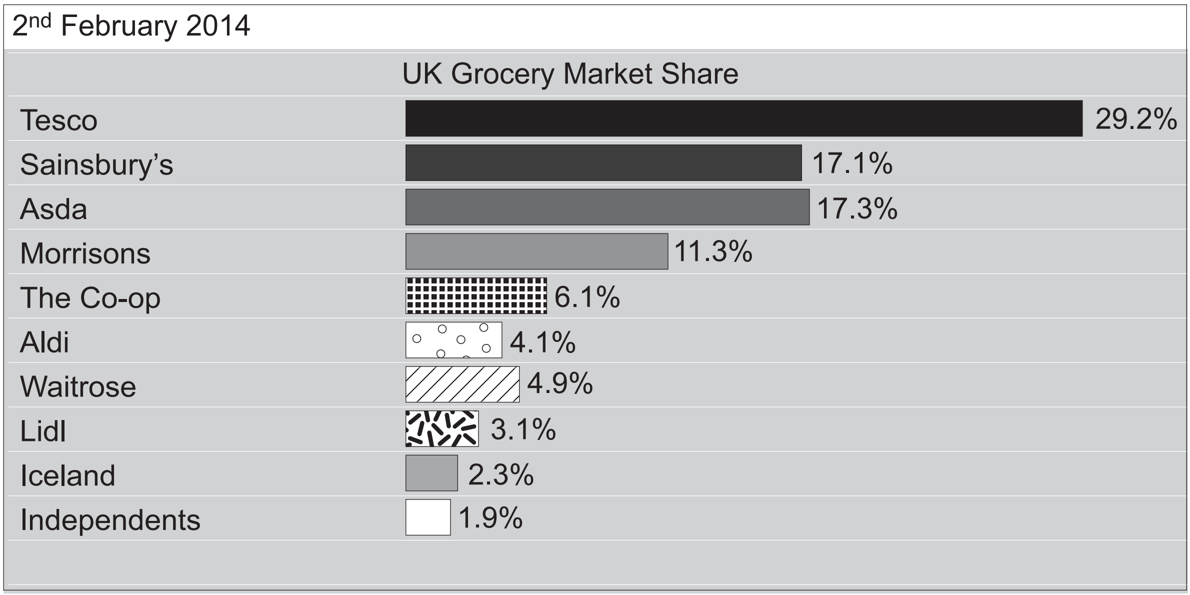
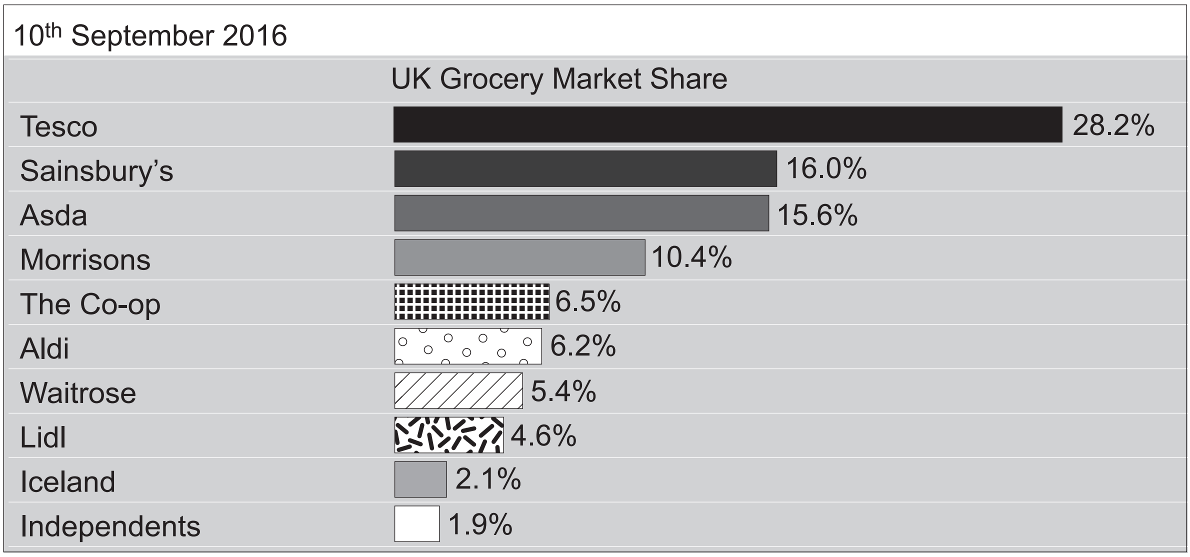
17. The charts below show the market shares of supermarkets in the UK in 2014 and 2016.





From the data we can conclude that between the two dates shown: [1]

A Sales of the leading four supermarkets fell

B The four firm concentration ratio fell

C Aldi and Lidl's profits rose

D Market concentration increased

E The smaller supermarkets all gained market share

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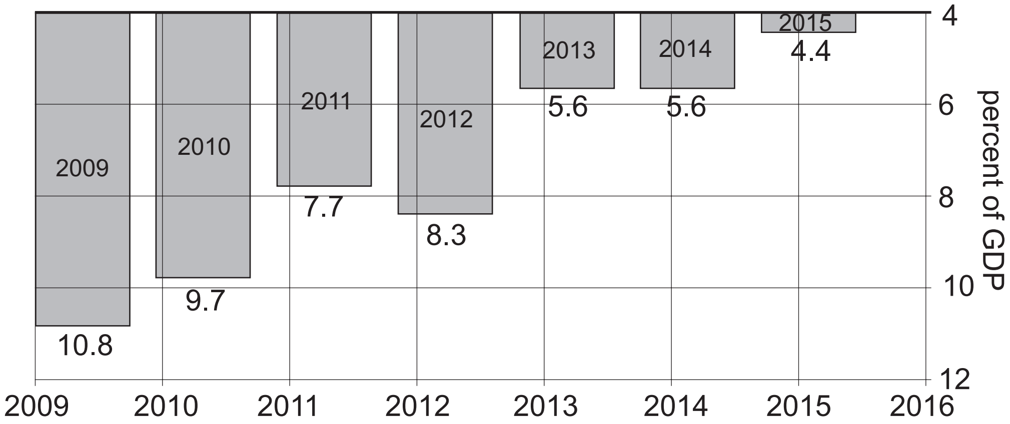
18. The chart below shows the UK's fiscal/budget deficit situation between 2009 and 2015.



It can be concluded that over the period: [1]

A The UK government must have increased taxes

B The UK national debt has risen

C The UK government must have increased its spending

D Interest rates on government bonds must have been increasing

E The UK government's annual borrowing has fallen every year

19. One significant effect of a fall in the exchange rate of the pound on the UK economy is that: [1]

A There is an improvement in the terms of trade

B Profits of importers tend to increase

C UK firms' overseas profits in terms of pounds increase

D The costs of imported raw materials fall

E There is an immediate improvement in the trade balance

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20. If an individual's weekly income rises from £500 to £540 and as a result their weekly spending on cakes increases from £10 to £12 then (other things being equal) their income elasticity of demand for cakes is: [1]

A 0.05

B 0.4

C 0.8

D 2.5

E 4.0

20

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SECTION B

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

21. One way in which firms aim to increase their revenue is by increasing their prices.

Using economic theory, consider whether an increase in price will always lead to an increase in revenue. [4]

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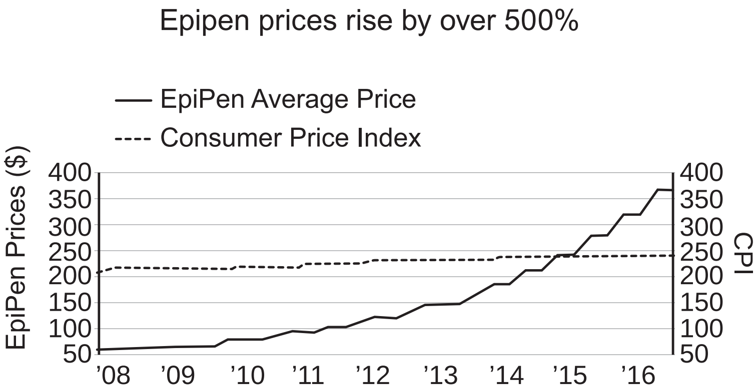
Examiner only

22. Massive price increase for Epipens raises alarm



The price of Epipens, life-saving adrenalin injectors used by many people with severe allergies (such as to nuts and wasp stings), has steadily increased in the US from $56.64 to $367.82 since US pharmaceuticals company Mylan acquired the sole rights to sell these products in 2007. Mylan's revenue from selling Epipens has risen substantially as a result.

US politicians have reacted with outrage, suggesting that laws could be passed to force Mylan to cut its prices, although some have placed the blame for the price increases on government regulations surrounding the development of new drugs. These regulations mean that it takes upwards of 12 years and billions of dollars to bring a new drug to market, restricting new entrants and leaving Epipen as the only product of its type.

With reference to the data, discuss whether US regulations on the development of new drugs are an example of government failure. [8]

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23. On the railway link between London and South Wales, the train company GWR allows passengers at the weekend to upgrade from Standard Class to First Class for £15. During the working week First Class travel is far more expensive.

(a) Outline why this is an example of price discrimination. [2]

(b) With reference to the example above assess the extent to which it is only producers who can benefit from price discrimination. [6]

8

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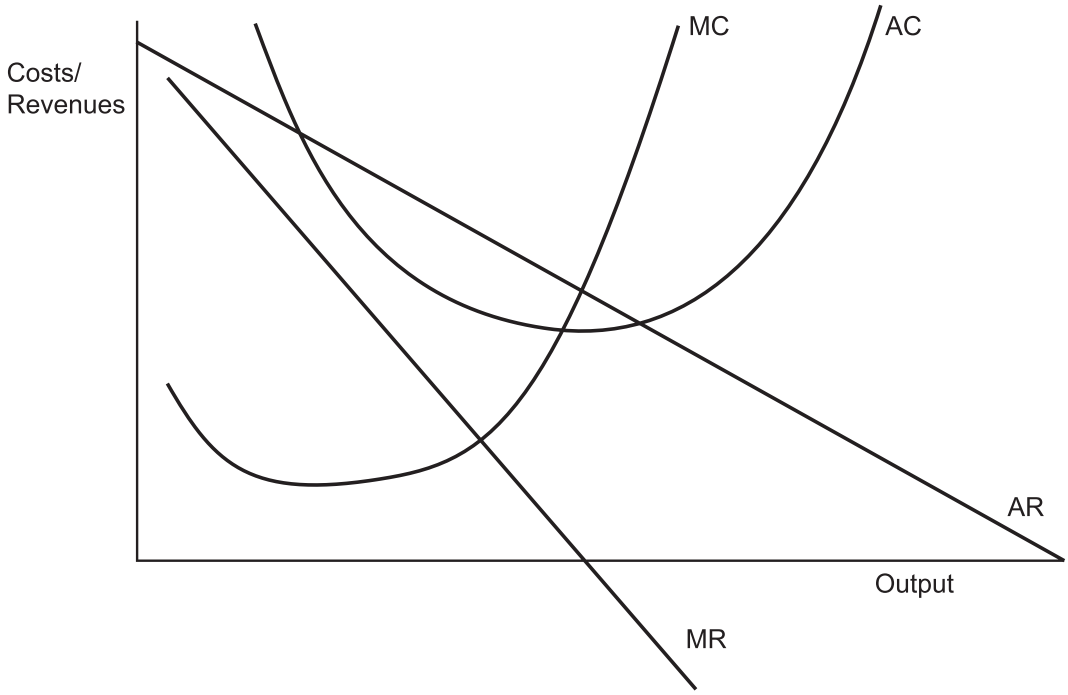
24. Volvo's cost-cutting programme delivers profits boost as the Swedish truckmaker overcomes decline in North American market

Despite the decline in demand in the North American heavy vehicle market, Volvo Group has been able to increase its profits in the US.

Commenting on Volvo's results, Volvo's Chief Executive Martin Lundstedt said: "In the second quarter we were able to continue the improvement of our underlying profitability despite declining sales, thanks to significant fixed cost reductions."

Adapt the diagram below to show the change in the profits of Volvo's truck/lorry division, as described in the article. Give reasons for the changes you make. [6]



Reasons:

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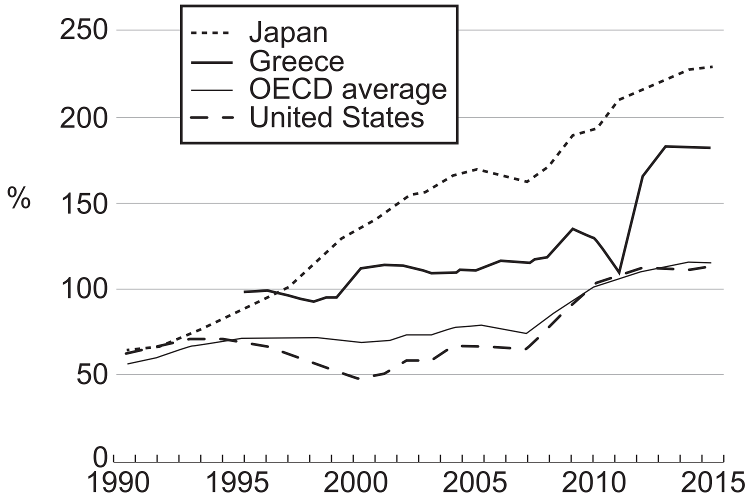
25. Study the data below and answer the question that follows.

Japan's fiscal situation has deteriorated rapidly

Total government debt as a % of GDP



Discuss the extent to which the Japanese government should be concerned by the trends in its total government debt shown in the chart. [6]

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26. Between 2001 and 2016 in the UK, the employment rate rose from 70% to 75%. Over the same period, unemployment fell from around 8% of the labour force to just under 5%.

Discuss the extent to which changes in employment levels are likely to lead to equal and opposite changes in unemployment levels. [4]

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27. Zambia and Equatorial Guinea are both countries in Sub Saharan Africa. In the 2015 Human Development Report, their human development index (HDI) and gross national income (GNI) per capita at purchasing power parity (PPP) were:

	HDI	GNI per capita at PPP
Equatorial Guinea	0.587	$21 056
Zambia	0.586	$3 734

Equatorial Guinea is a small country on the west coast of Africa which struck oil in 1995 and is now being used as a textbook case of the 'resource curse'.

Zambia, unlike most of its neighbours, has managed to avoid the war and upheaval that has marked much of Africa's history over the last 60 years, earning itself a reputation for political stability.

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Suggest possible reasons why these two countries can have almost identical HDIs when their GNI/per capita figures are so different. [4]

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END OF PAPER

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For continuation only.

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