

Surname	Centre Number	Candidate Number
Other Names		2

## GCE A LEVEL



A520U10-1



## ECONOMICS – A level component 1 Economic Principles

MONDAY, 20 MAY 2019 – MORNING

1 hour 30 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-20	20	
21	6	
22	6	
23	12	
24	6	
25	10	
<b>Total</b>	<b>60</b>	

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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.

**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. A free fireworks display in a park can best be described as a: [1]

- A Merit good
- B Public good
- C Free good
- D Demerit good
- E Private good

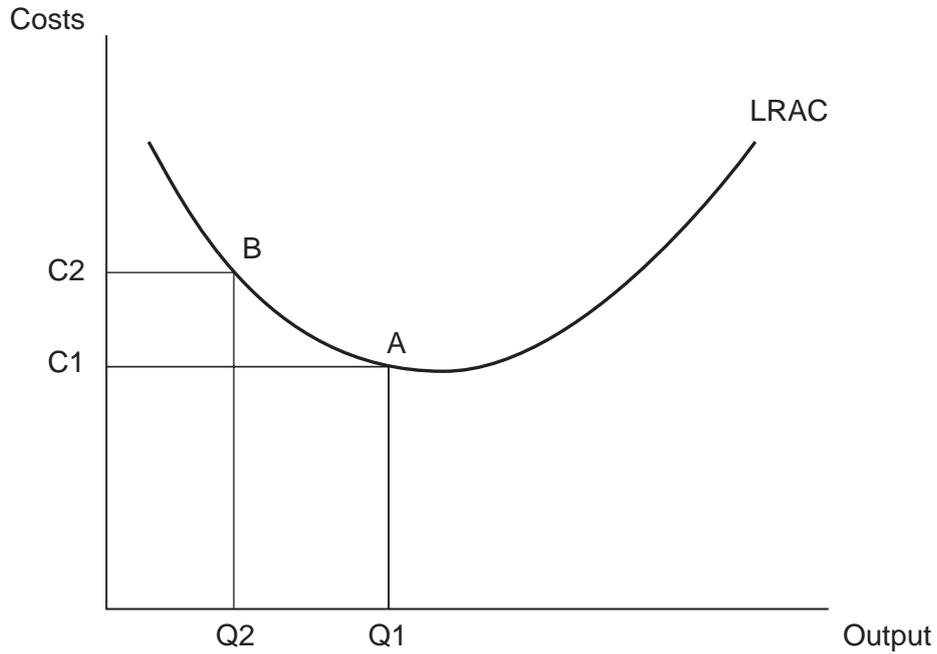
2. It has been estimated that the price elasticity of supply for cotton in India is +0.3. Between April 2016 and April 2017, the global price of cotton increased from \$1.50 per kg to \$1.95 per kg. The likely impact on the supply of cotton from India of this price change will be: [1]

- A +6.92%
- B +9%
- C +10%
- D +23.1%
- E +30%

3. A demerit good would be most likely to have: [1]

- A Marginal private benefit more than marginal social cost
- B Marginal social cost more than marginal private cost
- C Marginal private cost more than marginal social cost
- D Marginal social benefit more than marginal private benefit
- E Marginal private benefit more than marginal social benefit

4. The diagram below shows the long run average cost curve (LRAC) for a firm:



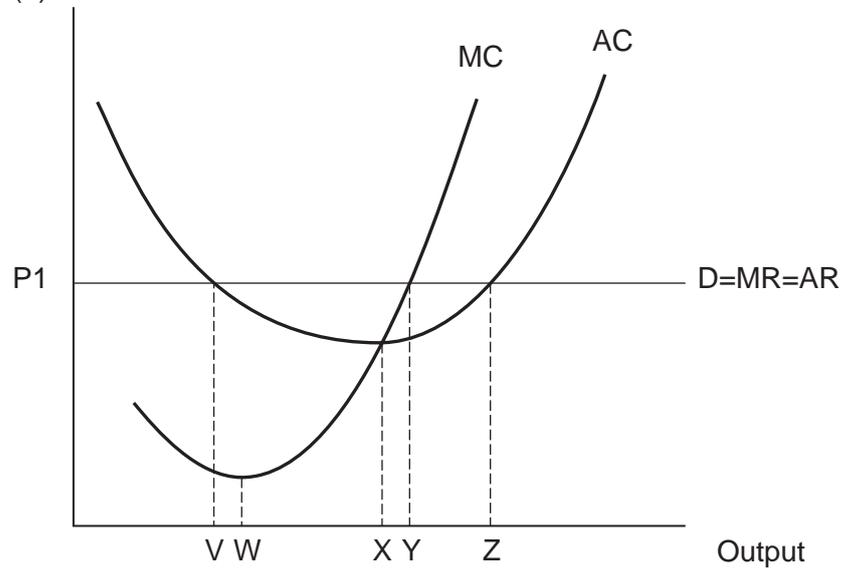
The impact on costs as a result of a movement from A to B in the diagram above is an example of: [1]

- A** Diseconomies of scale
- B** Diminishing returns to the variable factor
- C** Decreasing returns to scale
- D** The loss of internal economies of scale
- E** External diseconomies of scale



5. The diagram below shows a firm operating in a perfectly competitive market. What is the short run profit maximising level of output for the firm? [1]

Costs and revenues (£)



- A** Point V  
**B** Point W  
**C** Point X  
**D** Point Y  
**E** Point Z



6. A manufacturer of hand-made racing bicycles has fixed costs of £500 per month. The firm faces the following marginal costs:

Production of bicycles per month	1	2	3	4	5	6
Marginal cost	£300	£200	£250	£300	£450	£500

What is the average total cost of producing 5 bicycles per month?

[1]

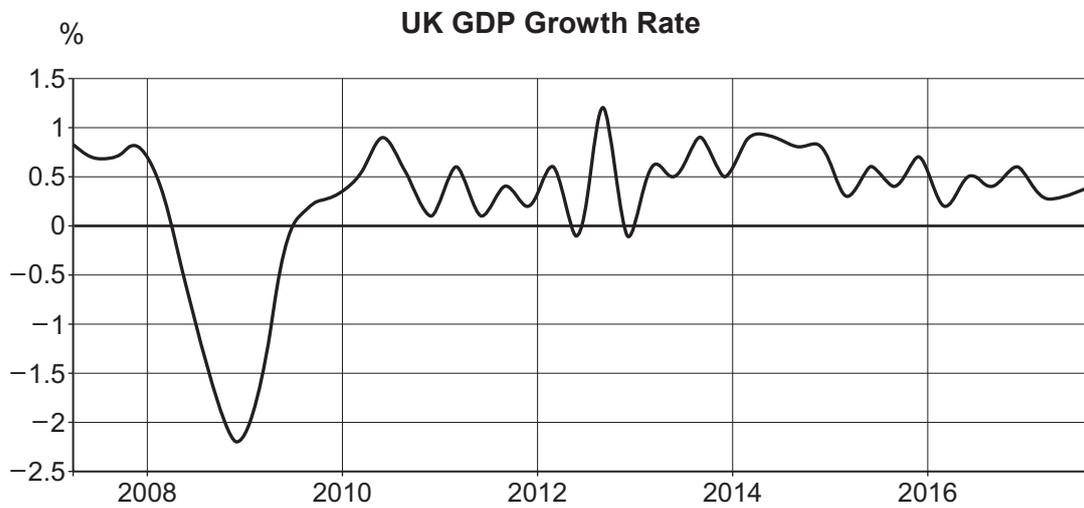
- A**      £300  
**B**      £400  
**C**      £450  
**D**      £1500  
**E**      £2000

7. In early 2016, the inflation rate in South Africa rose from 4.5% to 6.5%. The most likely explanation for this is:

[1]

- A**      An increase in direct taxes designed to reduce extreme levels of inequality  
**B**      A move toward freer international trade combined with policies to reduce the budget/fiscal deficit  
**C**      A major drought combined with a depreciation in the exchange rate  
**D**      Supply side reforms in product and labour markets  
**E**      Tighter credit conditions designed to reduce the demand for new houses

8. The change in GDP in the UK in 2008, as shown in the chart below, is most likely the result of: [1]

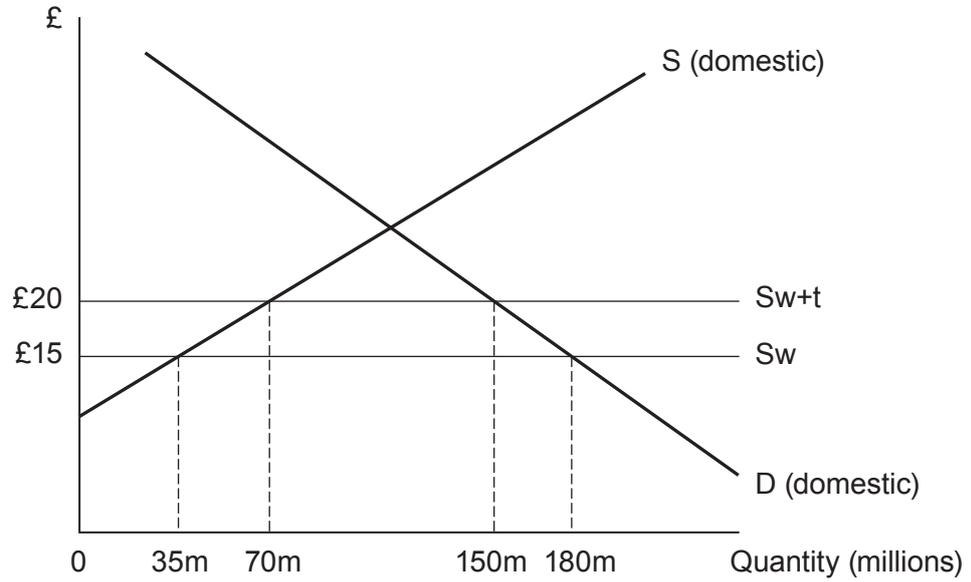


Source: *Tradingeconomics.com, Office for National Statistics*

- A** The bursting of the dotcom bubble
- B** The UK's referendum vote to leave the EU
- C** The Bank of England's quantitative easing programme
- D** The UK's exit from the Exchange Rate Mechanism on Black Wednesday
- E** The global financial crisis



9. The diagram below shows a £5 tariff being imposed on an imported product with a world price of £15.



The impact of the tariff is:

[1]

	Change in imports	Change in domestic producer surplus	Change in consumer surplus
A	30m	£350m	£900m
B	30m	£262.5m	£825m
C	45m	£175m	£900m
D	65m	£350m	£3000m
E	65m	£262.5m	£825m

10. In a hypothetical economy, consumers divide their purchases between 5 categories of goods. The table shows the weights of those goods in the economy's inflation index and the price index for each good in 2018.

Good	Weight	Price index (2010=100)
Food and drink	200	110
Housing	300	90
Leisure	150	100
Transport	250	100
Communications	100	120

The price index for the economy in 2018 is:

[1]

- A 52
- B 101
- C 104
- D 200
- E 101 000

11. Study the table below on economic growth rates

**World economic growth forecasts**  
(annual % changes)

	Actual		Forecasts	
	2015	2016	2017	2018
<b>World Output</b> (the average growth rate of Advanced and Non-Advanced Economies)	<b>3.2</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>
<b>Advanced Economies</b>	<b>2.1</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>
United States	2.6	1.6	2.3	2.5
Germany	1.5	1.7	1.5	1.5
France	1.3	1.3	1.3	1.6
Italy	0.7	0.9	0.7	0.8
Spain	3.2	3.2	2.3	2.1
Japan	1.2	0.9	0.8	0.5
United Kingdom	2.2	2.0	1.5	1.4
Canada	0.9	1.3	1.9	2.0
Other Advanced Economies	2.0	1.9	2.2	2.4

From the table, it can be concluded that:

[1]

- A** World output was lower in 2016 than in 2015
- B** Spain's economy is forecast to be larger than that of the UK by 2018
- C** Non-Advanced economies are forecast to grow more quickly than advanced ones
- D** Spain's economy is forecast to be the best performing in growth terms
- E** Japan's GDP has fallen and is forecast to continue to fall over the period shown



12. Suppose that a certain commodity was priced at \$120 per tonne in January 2018 and by December 2018 its price had risen to \$135 per tonne. Using the January 2018 price as the base, the value of the commodity's index in December 2018 was: [1]

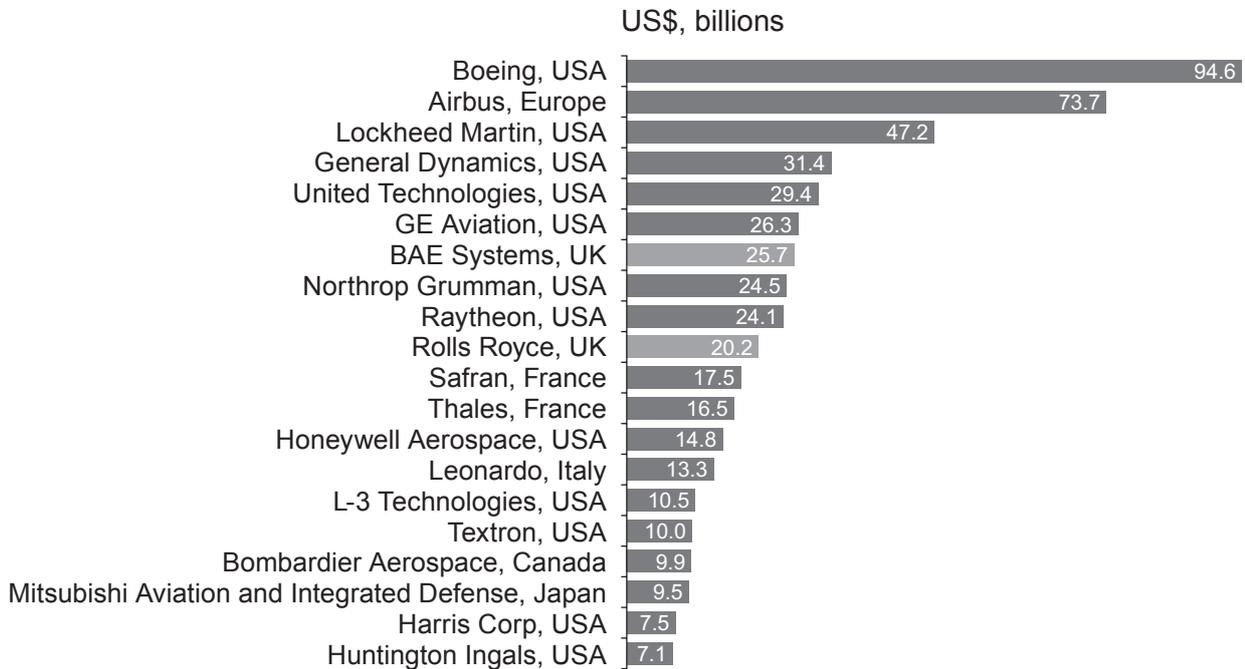
- A 112.5
- B 113.3
- C 115.0
- D 135.8
- E 162.0

13. According to the website [thisismoney.co.uk](http://thisismoney.co.uk), diamond prices fell 9% in the first quarter of 2016. Which of the following statements would necessarily explain this fall in prices? [1]

- A Slowing demand from China was combined with production difficulties in South Africa
- B New investment in South African diamond mines was combined with an increase in the demand for industrial diamonds
- C The world's leading diamond supplier, De Beers, increased its stockpile of raw diamonds
- D Slowing demand from China was combined with new investment in South African diamond mines
- E An increase in the demand for industrial diamonds was combined with production difficulties in South Africa

14. The chart below gives information on the global aerospace industry

**Top 20 global aerospace companies by revenue, 2016**



Total sales of firms shown in the chart = \$513.7 billion

Source: PwC, *Aerospace and defense 2016 year in review and 2017 forecast*, June 2017

Ignoring any firms not shown in the chart, which of the following can be concluded? [1]

- A Boeing is a monopolist
- B UK firms have 45.9% of the market
- C The two firm concentration ratio is 32.76%
- D The five firm concentration ratio is over 70%
- E The largest two firms have a larger market share than all the others combined



15. In a market there are two main competitors, Firm X and Firm Y. Firm X is considering the launch of a new product into the market whilst Firm Y is considering a change in the price of its existing products. The matrix below shows their expected pay-offs in terms of profits:

		Firm Y	
		Low price	High price
Firm X	Don't launch	£10m, £15m	£15m, £20m
	Launch	£30m, £10m	£40m, £3m

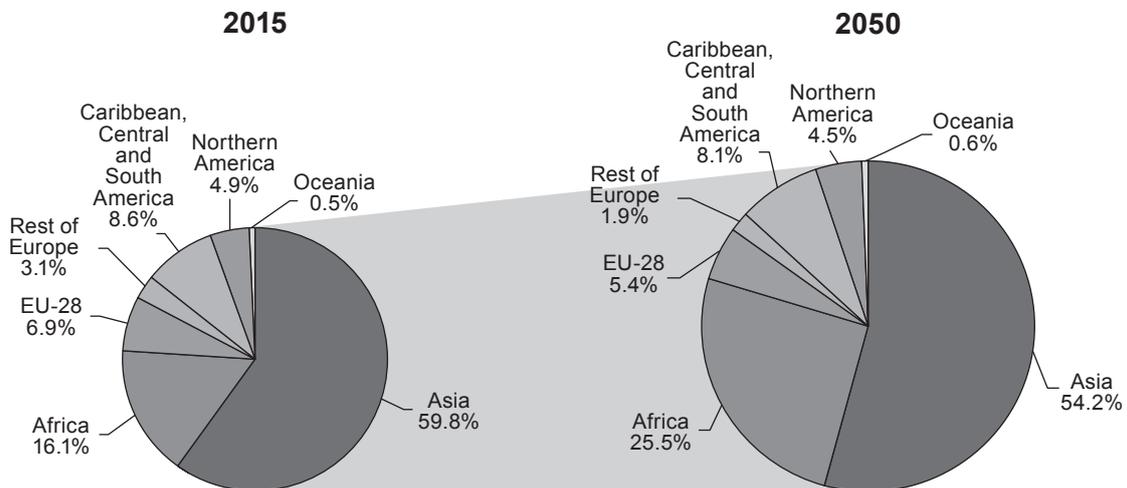
What, if any, is the Nash equilibrium in this market?

[1]

- A Launch, low price
- B Launch, high price
- C Don't launch, low price
- D Don't launch, high price
- E No Nash equilibrium in this case

16. The chart below gives information on global population trends.

**2015 world population and 2050 world population forecast by region**  
(% of world population)



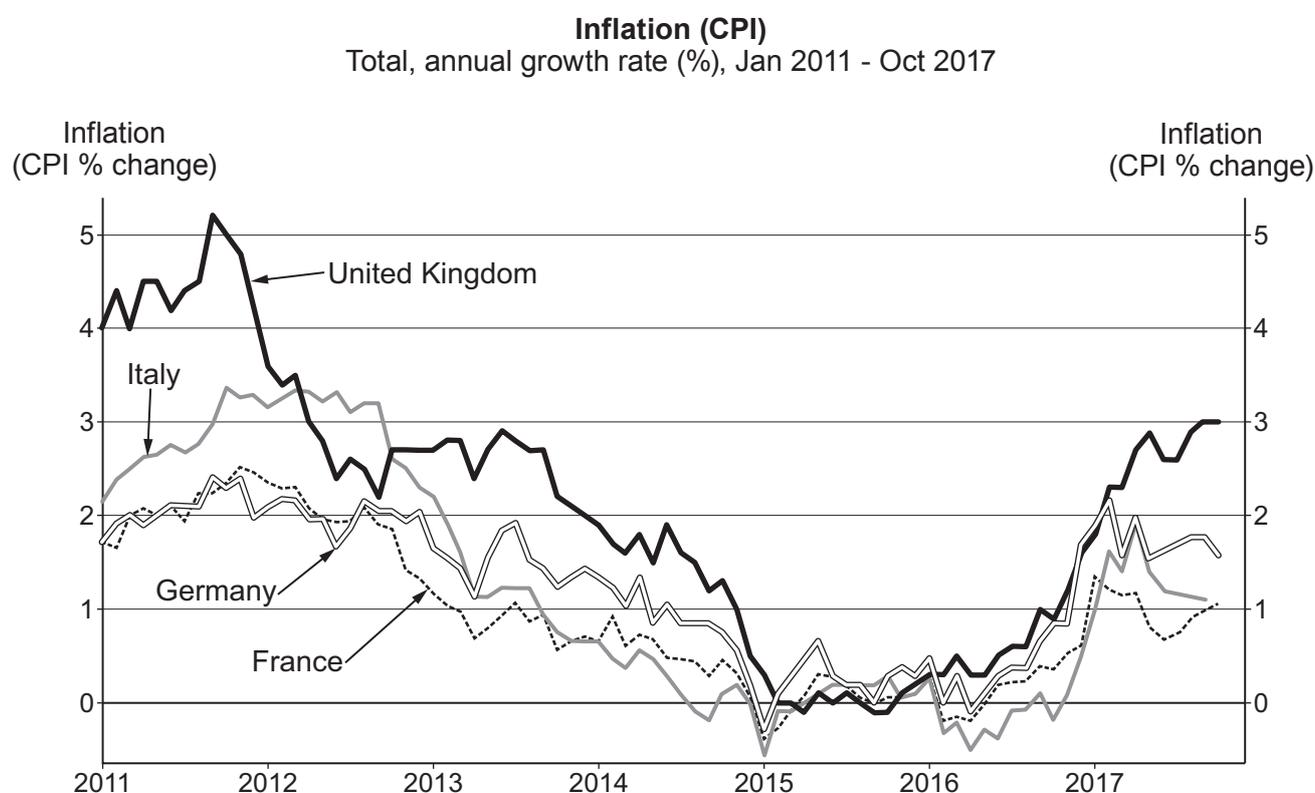
Source: <http://ec.europa.eu>

Over the period 2015 to 2050, global population is predicted to rise. It can safely be concluded from this data that: [1]

- A** Of the regions shown, Africa will have the fastest-growing population
- B** The population of Asia is forecast to fall between 2015 and 2050
- C** In 2015, more people live in Northern America and the Caribbean, Central and South America than in Africa
- D** By 2050 the Rest of Europe will be the region with the lowest population
- E** Of the regions shown, Oceania will have the slowest growing population



17. The chart below shows CPI inflation for 4 countries:



Source: <https://data.oecd.org>

Over the period shown in the chart, it can be seen that:

[1]

- A** The UK's inflation rate was always higher than the other three countries
- B** Prices in the UK were highest in late 2011
- C** Prices were higher in the UK than in the other three countries by late 2017
- D** Prices were falling in all countries between 2012 and 2014
- E** All countries experienced periods of inflation and deflation



18. The table below shows the terms of trade for 5 economies:

**Terms of Trade**

Country	2011	2012	2013	2014	2015	2016
Canada	103.37	101.78	101.78	100.42	93.53	91.66
France	97.64	97.32	98.42	99.61	102.71	103.54
Germany	97.29	97.10	98.17	99.50	102.13	103.70
Italy	97.38	95.90	97.40	99.96	102.20	104.73
Japan	92.40	91.32	90.39	89.94	97.90	102.97

It can safely be concluded that between 2011 and 2016:

[1]

- A The Canadian trade balance worsened
- B The Japanese trade balance worsened
- C Export prices in Italy fell relative to import prices
- D Export prices in Canada fell relative to import prices
- E Japanese export prices rose faster than German export prices

19. A manufacturer of hand-made wedding dresses has the following financial data:

Dresses made per month	Total fixed costs	Total variable costs
1	£5 000	£3 500
2	£5 000	£6 800
3	£5 000	£9 000

The marginal cost of the 3rd dress is:

[1]

- A £2 200
- B £3 000
- C £7 200
- D £8 000
- E £14 000

20. The table below shows UK gross household income by income decile groupings in 2016

Decile	Average gross weekly household income
Lowest 10%	£130
Second 10%	£250
Third 10%	£340
Fourth 10%	£440
Fifth 10%	£550
Sixth 10%	£670
Seventh 10%	£820
Eighth 10%	£1 010
Ninth 10%	£1 280
Highest 10%	£2 280

Source: ONS

Based on the data given, the median gross weekly household income in the UK is approximately: [1]

- A      £550
- B      £610
- C      £670
- D      £777
- E      £1 205


20



22. Figure 1 below shows the total quantitative easing (QE) carried out by major central banks in the developed world. Figure 2 is an index of global share prices.

Figure 1

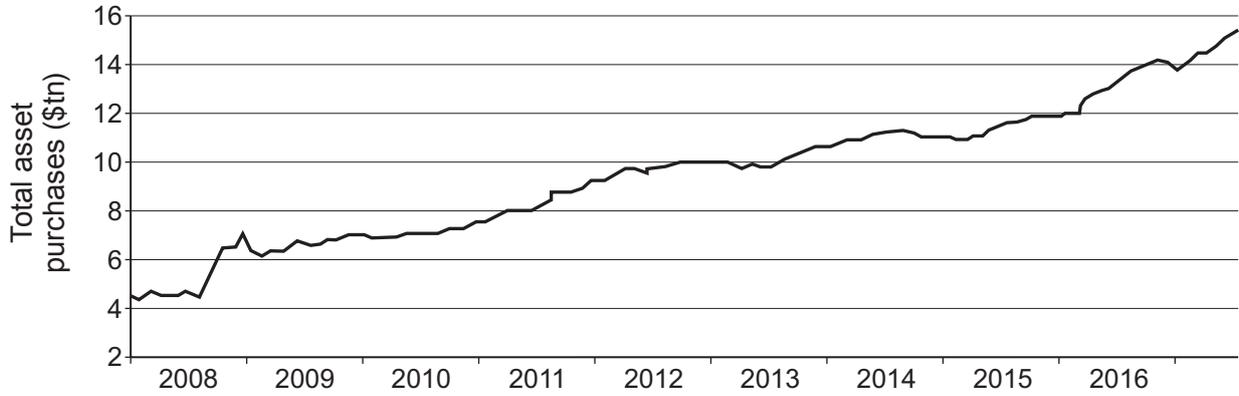
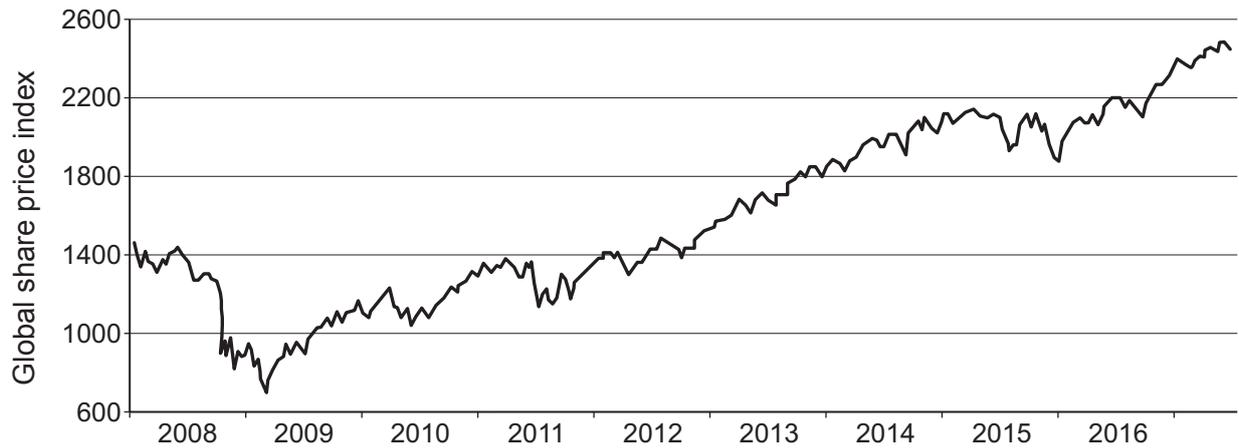


Figure 2



With reference to Figures 1 and 2, explain the process by which QE and share prices are related. [6]

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23. Suppose the price elasticity of demand for UK car exports to the eurozone is  $-0.5$  and that the exchange rate is  $\text{£}1=1.5$  euros. A UK based car manufacturer exports 300 000 cars per year to the eurozone at an average price of  $\text{£}15\ 000$ .

If the exchange rate depreciates to  $\text{£}1=1.1$  euros, calculate:

- (a) (i) the expected new level of demand for UK cars in the eurozone following the change in the exchange rate. [2]

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- (ii) the expected new level of revenue in pounds (£) for the manufacturer, assuming that the new level of demand can be met. [2]

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- (b) To what extent might a depreciation of the pound against the euro lead to an improvement in the UK current account of the balance of payments? [8]

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