



GCE A LEVEL



A520U10-1

THURSDAY, 18 MAY 2023 – MORNING

ECONOMICS – A level component 1

Economic Principles

1 hour 30 minutes plus your additional time allowance

Surname _____

First name(s) _____

Centre Number _____

Candidate Number 2 _____

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-20	20	
21	6	
22	7	
23	10	
24	8	
25	9	
Total	60	

ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink, black ball-point pen or your usual method.

Write your name, centre number and candidate number in the spaces provided on the front cover.

Answer ALL questions.

Write your answers in the spaces provided in this booklet. If you run out of space, use the additional page(s) at the back of the booklet, taking care to number the question(s) correctly.

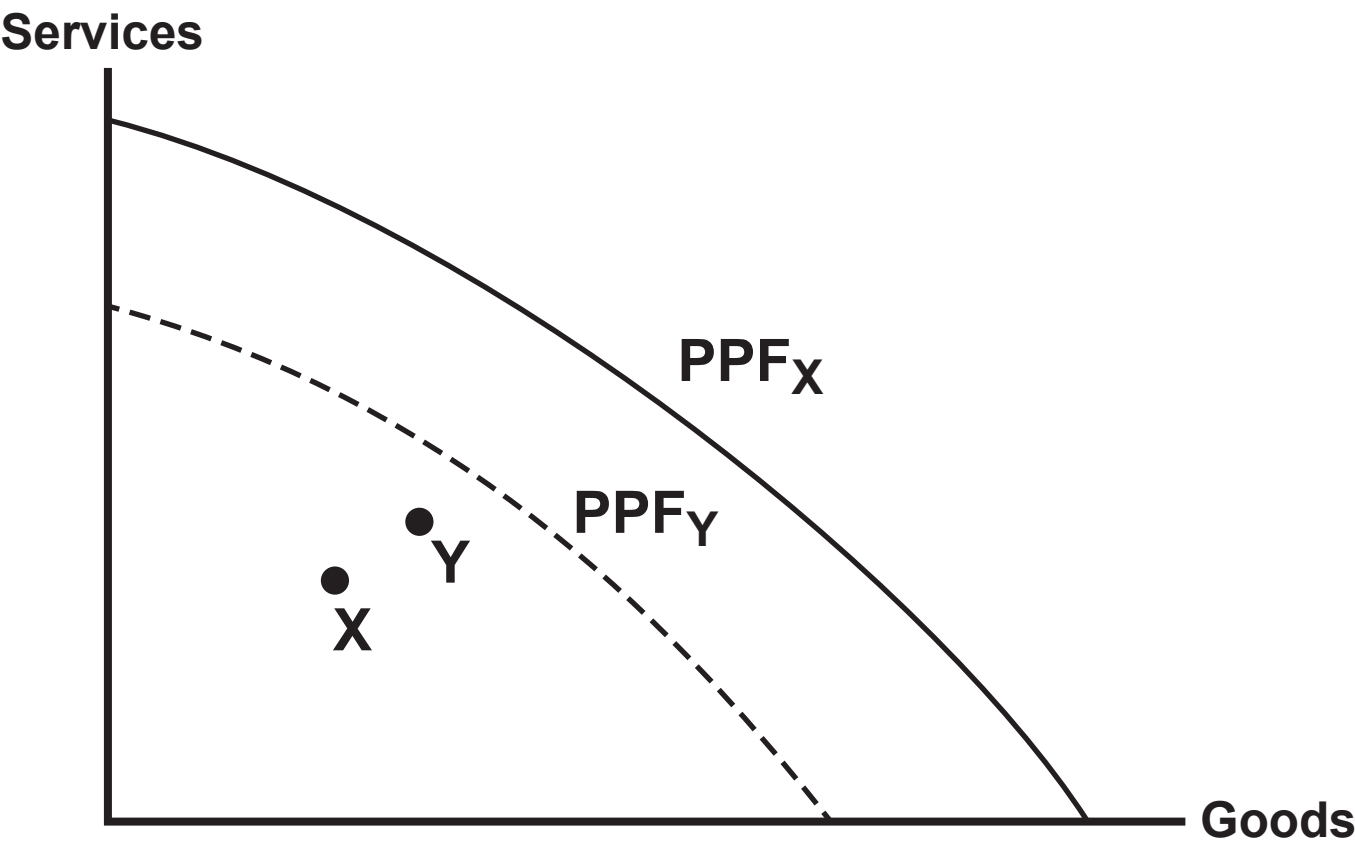
INFORMATION FOR CANDIDATES

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.

(Turn over)

Diagram for Question 1



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 opposite shows a country's production possibility frontiers (PPF_X and PPF_Y) and Gross Domestic Products (GDPs) – (Point X and Point Y) in two consecutive years (Year 1 = X and Year 2 = Y).

(Turn over)

1. Which of the following scenarios best explains the changes shown in the diagram? [1 mark]

A A reduction in the retirement age combined with rising consumption

B A natural disaster combined with a sharp recession

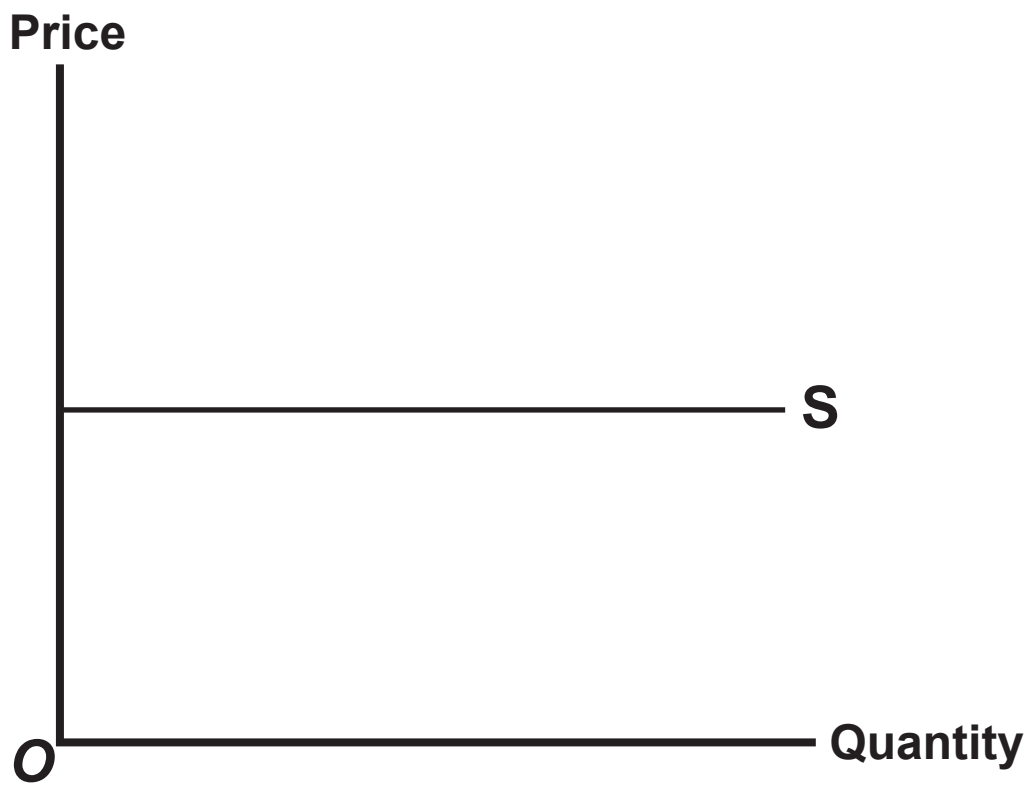
C Increased international specialisation combined with a fall in imports

D Rising exports combined with increased investment

E Sharp cuts in government spending combined with increases in direct taxes



Diagram for Question 2



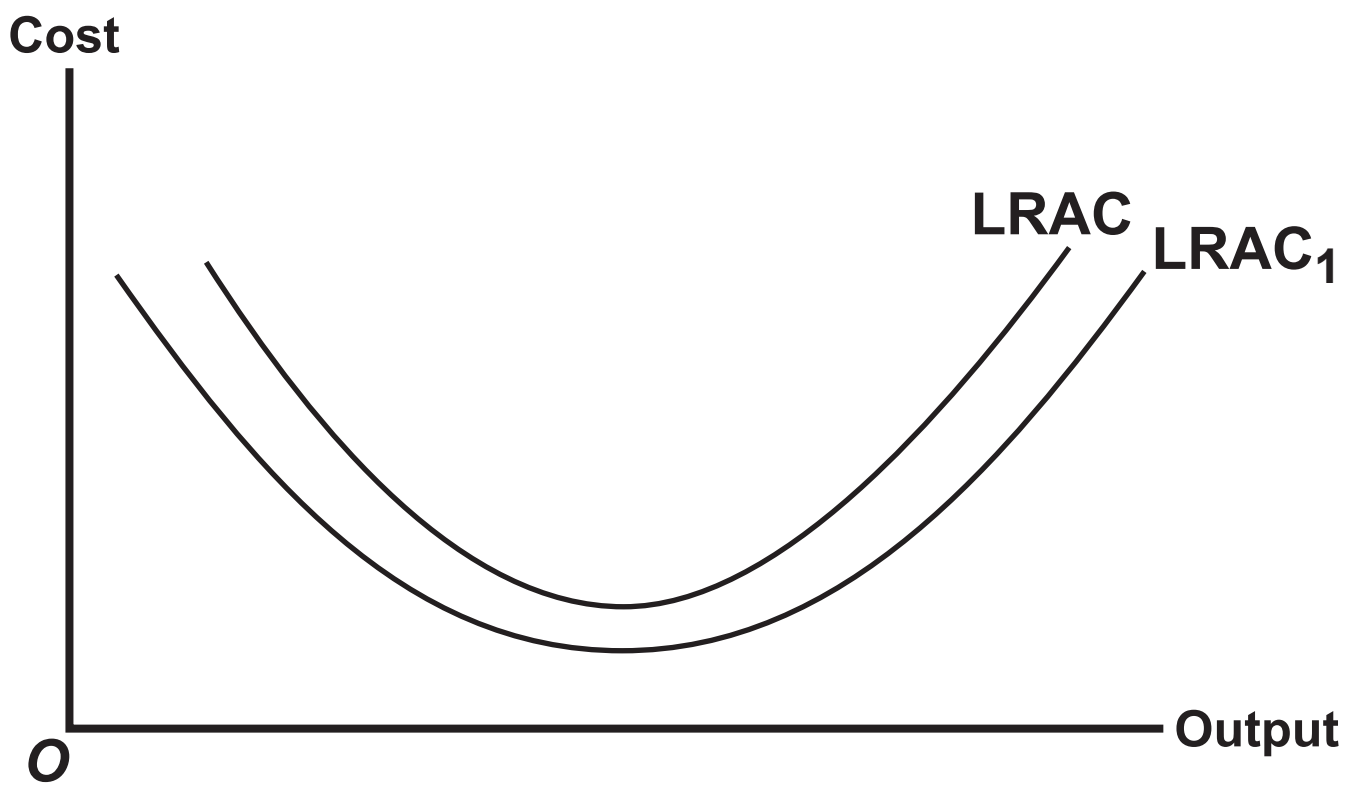
2. The diagram opposite shows the supply curve for a product.

The supply curve shown would be most likely to apply to which ONE of the following? [1 mark]

- A Paintings by Picasso
- B 1950s vintage cars
- C Music downloads
- D Rice
- E Oil



Diagram for Question 5



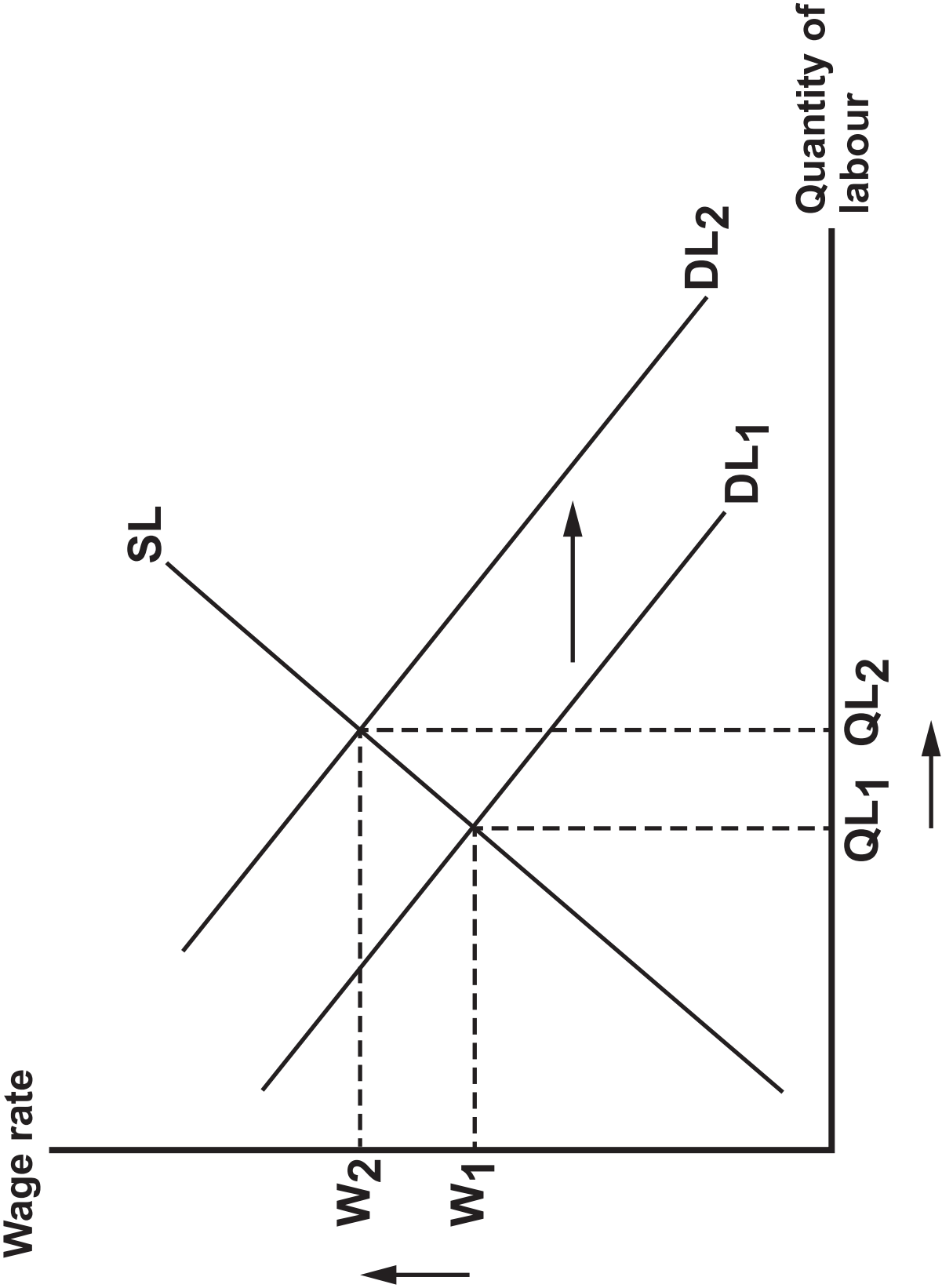
3. The diagram opposite shows two long run average cost curves for a firm.

The shift in position of the long run average cost curve for a firm in a particular industry from LRAC to LRAC₁ could be the result of: [1 mark]

- A Internal managerial economies of scale
- B The introduction of a national 5G network
- C An increase in the national minimum wage
- D Lower interest rates for bank loans taken out by small firms
- E Increased cost of raw materials



Diagram for Question 4



4. The diagram opposite shows the demand and supply for labour in a particular industry.

The demand curve has shifted from DL_1 to DL_2 .
This could have been the result of: [1 mark]

- A A rise in the price of the product being made by the workers
- B An increase in the qualifications required to enter the industry
- C An increase in the level of global competition
- D Increased trade union power and workplace regulations
- E A fall in the cost of labour-saving capital equipment

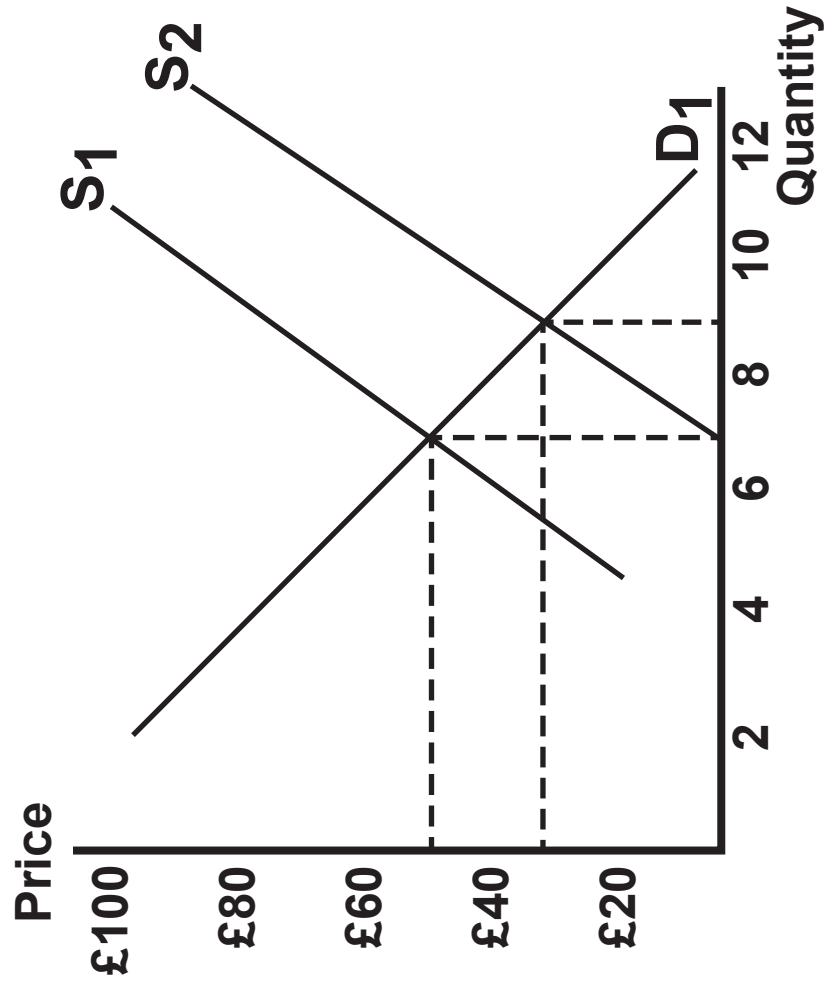


- 5. In a market for a merit good, a government decides to correct the market failure by creating a subsidy for the producers.**

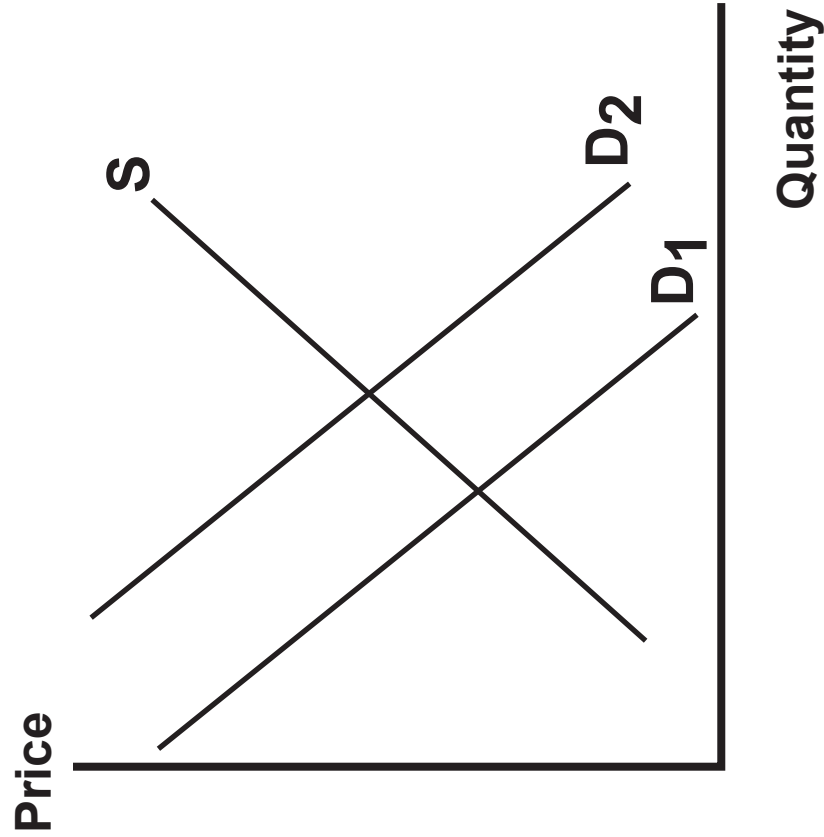
Which of the diagrams opposite shows both the initial welfare loss and how the market failure will be corrected? [1 mark]

Diagram for Question 6

PRODUCT X



PRODUCT Y



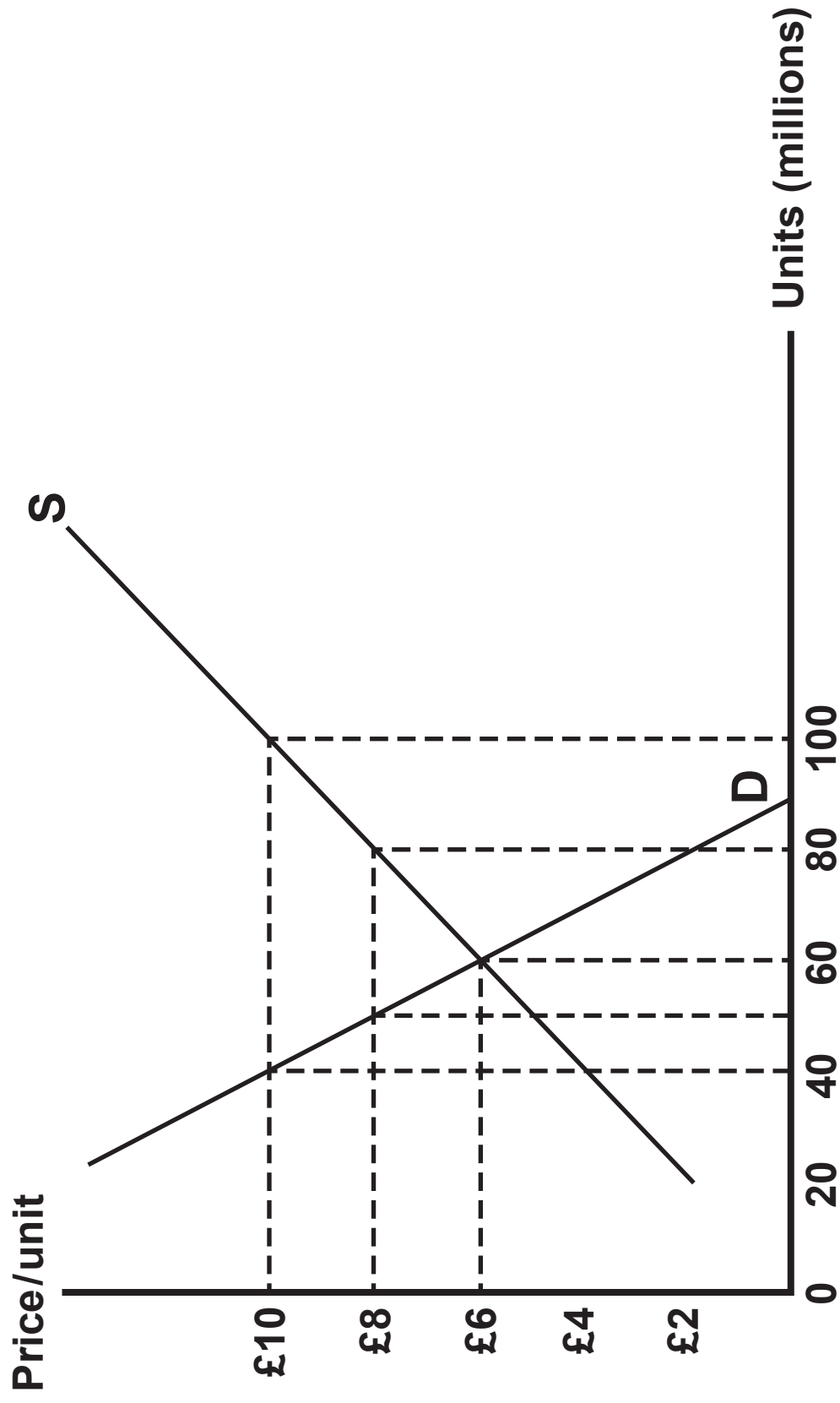
6. The diagram opposite shows the markets for two products, **X** and **Y**. The supply of product **X** has shifted from S_1 to S_2 . As a result, there has been a shift in demand for product **Y** from D_1 to D_2 .

Which **ONE** of the following combinations is true?
[1 mark]

	THE PED FOR X IS	THE XED BETWEEN X AND Y IS
A	Elastic	Negative
B	Elastic	Positive
C	Unitary	Positive
D	Inelastic	Negative
E	Inelastic	Positive



Diagram for Question 7



7. The diagram opposite shows a market in which the government sets a guaranteed minimum price for a product. It guarantees to buy any unsold units at the guaranteed price.

The effect of the government increasing the minimum price from £8 to £10 will be to increase its expenditure from: [1 mark]

	EXPENDITURE AT £8	EXPENDITURE AT £10
A	£160 m	£360 m
B	£240 m	£600 m
C	£240 m	£400 m
D	£640 m	£840 m
E	£640 m	£1000 m



The table below should be used for questions 8, 9 and 10.

The table gives information on a firm's costs and revenues at different output levels.

OUTPUT	MARGINAL COST (MC)	AVERAGE COST (AC)	AVERAGE REVENUE (AR)
5	£10	£30	£40
10	£5	£21	£35
15	£10	£16	£30
20	£15	£15	£25
25	£20	£17	£20
30	£25	£18	£15
35	£30	£19	£10

(Turn over)

8. At which level of output is the firm productively efficient? [1 mark]

A 10

B 15

C 20

D 25

E 30

☐

9. At which level of output is the firm allocatively efficient? [1 mark]

A 10

B 15

C 20

D 25

E 30

☐

10. At which level of output is the firm's TOTAL PROFIT at its highest? [1 mark]

A 10

B 15

C 20

D 25

E 30

☐

11. If, as a result of a crisis, a country's GDP falls by 20% in a year, by what % must it rise to be back at its original level? [1 mark]

A 10%

B 15%

C 20%

D 25%

E 30%

☐

Table for Question 12

FINANCIAL YEAR ENDING MARCH	2011	2012	2013	2014	2015	2016	2017	2018	2019
UK government debt (£ billion)	1214.5	1349.7	1425.6	1522.5	1604.1	1652.3	1720.5	1764.5	1821.9
% of GDP	74.9	80.9	82.6	84.3	85.7	85.4	85.2	84.6	84.2

- 12. The table opposite has information on the level of UK government debt.**

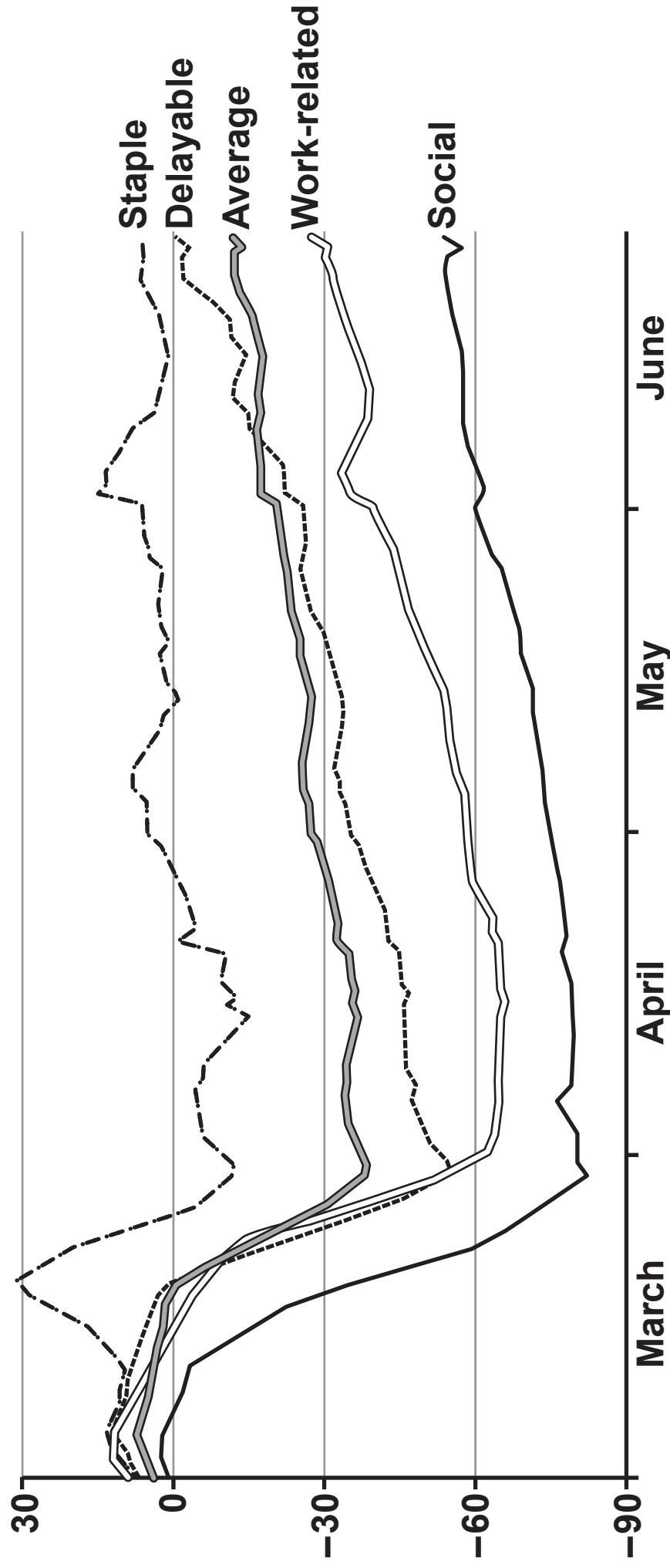
It can be concluded that: [1 mark]

- A Bond yields rose over the period**
- B UK government debt was falling in real terms after 2015**
- C GDP increased faster than UK government debt after 2015**
- D The budget deficit rose each year**
- E The government reduced tax rates in each year between 2011 and 2019**



Chart for Question 13

BRITAIN, CONSUMER SPENDING, 2020 COMPARED WITH JAN-FEB AVERAGE, %



Sources: Bank of England; The Economist

- 13. The chart opposite gives information on consumer spending in Britain between March and June 2020.**

Which of the following can be concluded from this chart? [1 mark]

- A Average spending in June 2020 is lower than in June 2019**
- B Spending on delayable goods rose faster than any other type of spending between the start of April and the end of June**
- C By the end of June spending on staple goods was higher than spending on work-related goods**
- D Consumer spending was at the same level as its Jan–Feb average by the end of June**
- E Spending on social goods was lower than on any other type over the period.**

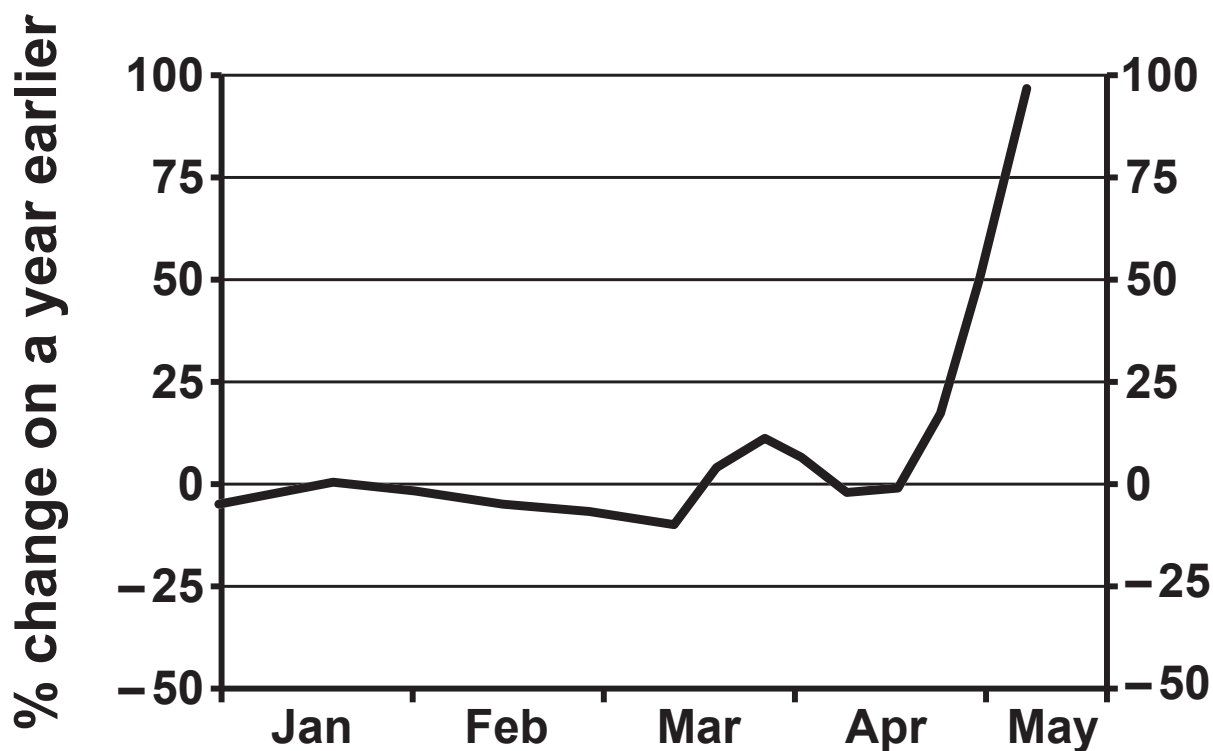


Chart for Question 14

PRODUCTION



PRICES



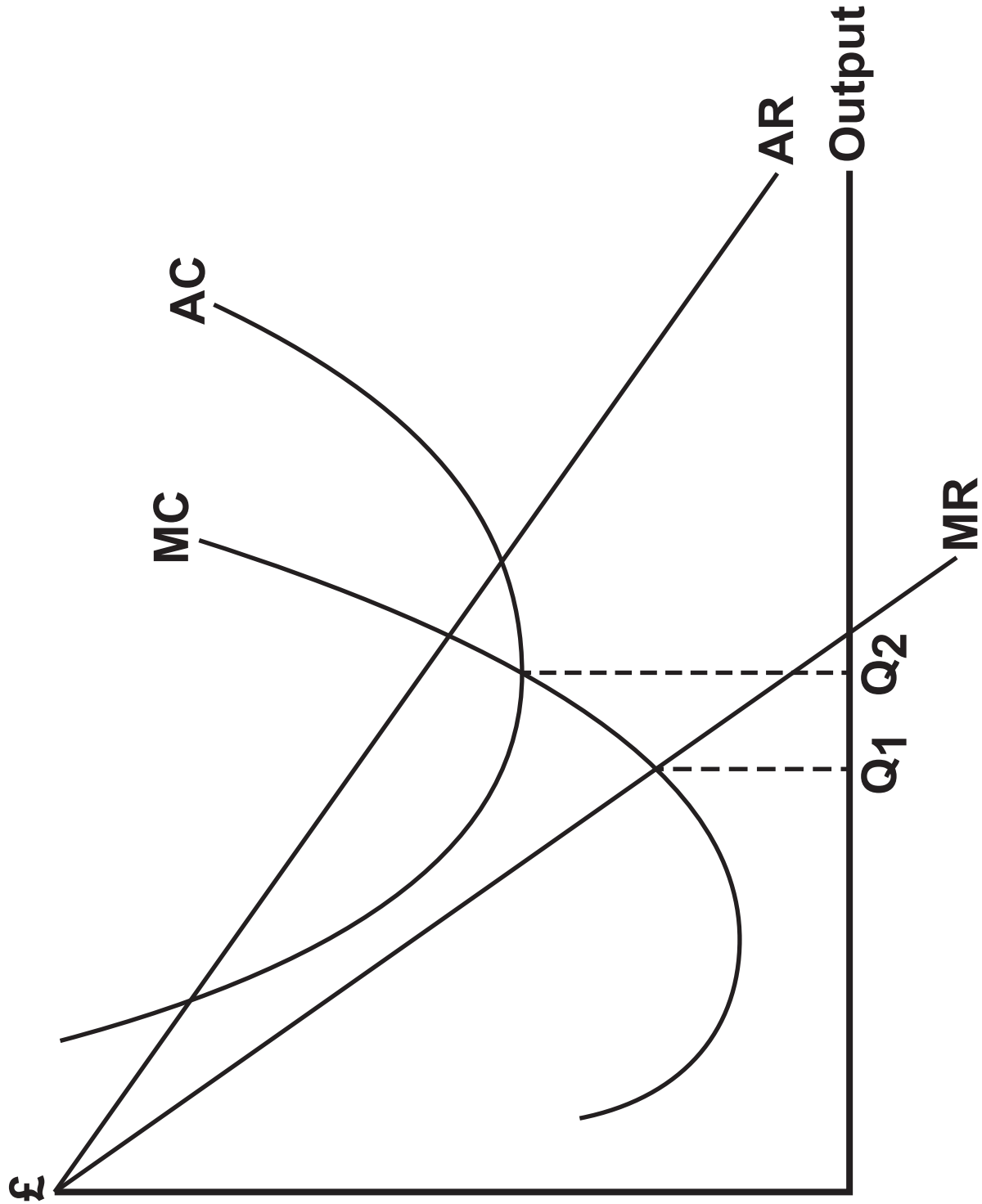
Sources: USDA; CoBank; The Economist

- 14. The chart opposite gives information on the US beef industry in 2020.**

Question 14 continues on next page

14. Which of the diagrams opposite is a possible representation of what happened in the US beef industry after March 2020? [1 mark]

Diagram for Question 15



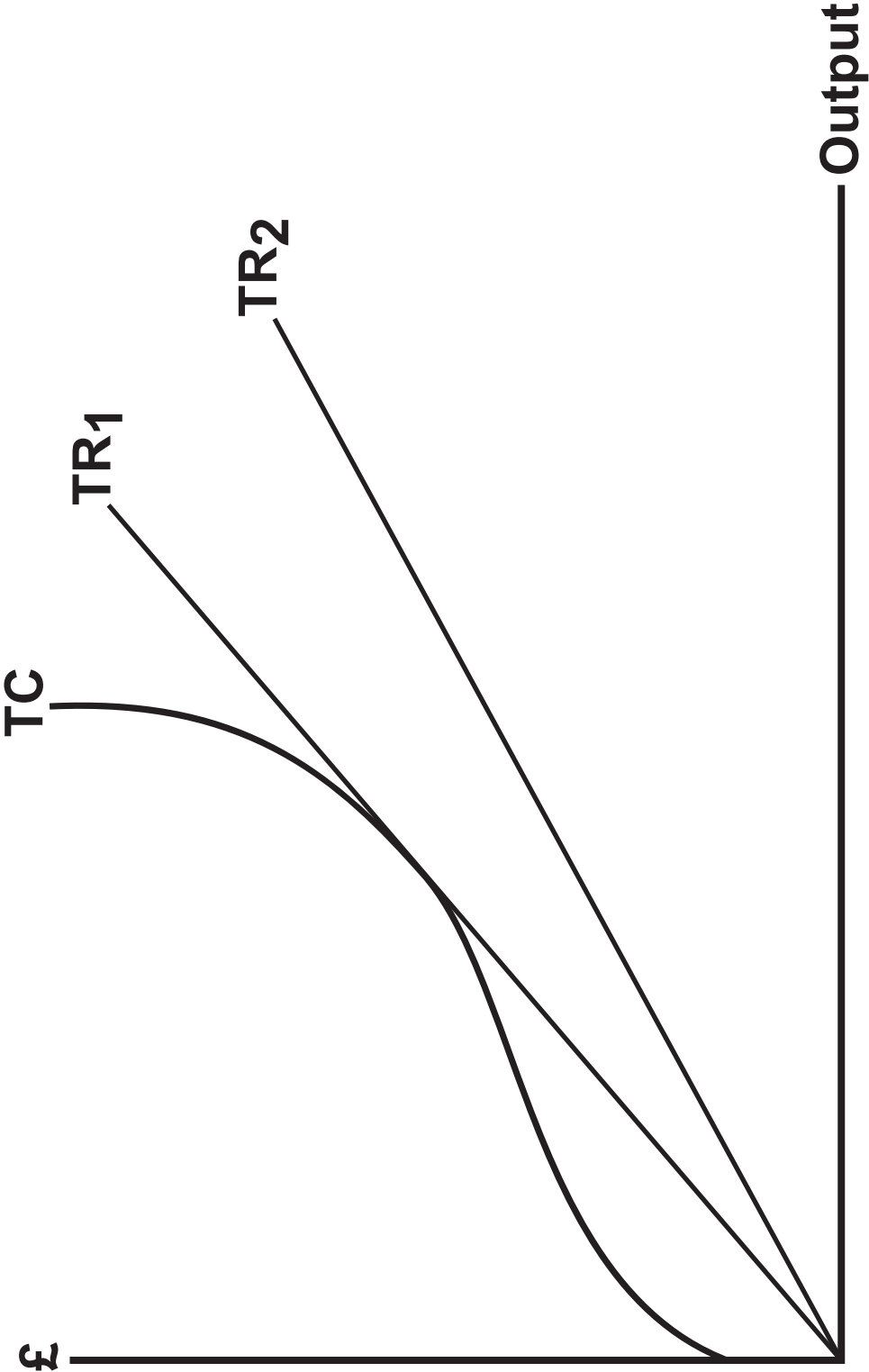
15. The diagram opposite shows a firm that has decided to increase its output from Q_1 to Q_2 .

The most likely impact of this decision on the firm will be: [1 mark]

- A To increase total profits
- B To increase total revenue
- C To reduce total cost
- D To increase total fixed costs
- E To reduce its productive efficiency



Diagram for Question 16



16. The diagram opposite shows a firm's total cost and total revenue curves before and after a shift in total revenue from TR_1 to TR_2 .

The shift in total revenue from TR_1 to TR_2 shown in the diagram is best explained by a: [1 mark]

- A** Perfectly competitive firm in an industry where demand has fallen
- B** Firm in monopolistic competition which has attracted more customers
- C** Firm in perfect competition that has increased prices
- D** Firm in monopolistic competition that has engaged in an unsuccessful advertising campaign
- E** Perfectly competitive firm in an industry which some firms have left



17. The charts opposite give information on indexes of Japanese export and import prices:

It can be concluded that: [1 mark]

- A Japan's terms of trade index was 110.65 at the end of the period
- B Japan's terms of trade index was worse at the end of the period than at the start
- C Japan's terms of trade index was 102.36 at the start of the period
- D Japan's exchange rate depreciated after February 2020
- E Export and import prices always moved in the same direction in Japan



18. A government has successfully introduced labour market deregulation.

Which diagram opposite represents the impact that would be expected by neo-classical economists? [1 mark]

Table for Question 19

	WEIGHT (TOTAL = 1000)	INFLATION RATE FOR EACH GOOD OVER THE YEAR
Food and drink	250	10%
Housing	300	-5%
Leisure	200	3%
Communications	150	5%
Other goods	100	2%

19. The table opposite shows an economy's consumer price index weights and the inflation rates for a set of goods in that economy.

If the economy's consumer price index last year was 300, then the impact of the price changes shown would be to change the index to: [1 mark]

A 302.55

B 307.65

C 315

D 345

E 2550

20. Which of the following combinations shows the most likely effect of a sharp depreciation of a country's exchange rate? [1 mark]

	TERMS OF TRADE	CURRENT ACCOUNT BALANCE
A	Improve	Worsen
B	Improve	Improve
C	Worsen	Improve
D	Worsen	Uncertain
E	Uncertain	Uncertain

☐

SECTION B

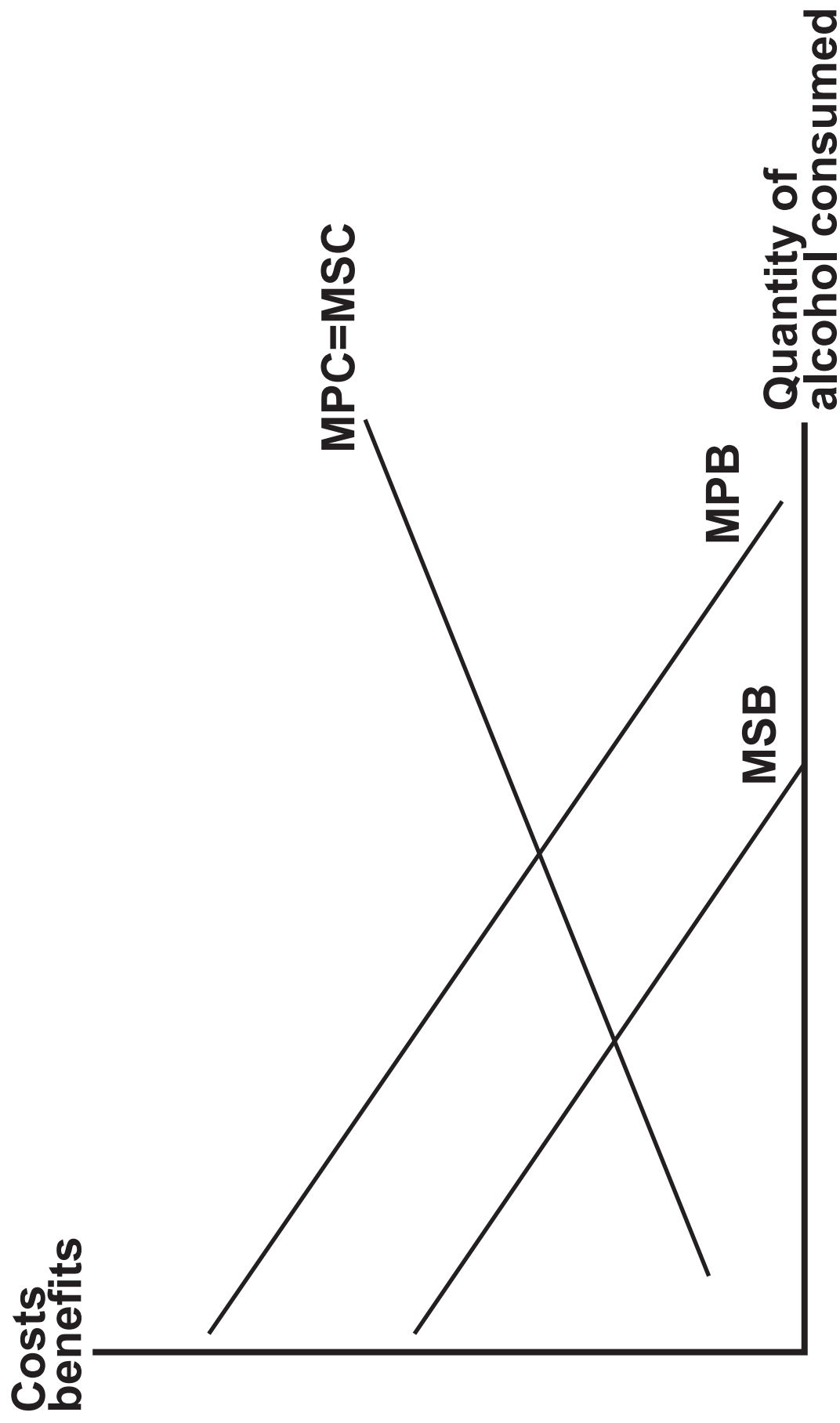
Answer ALL the questions in the spaces provided.

21. Alcohol is known to be overconsumed in a free market. There are external costs that are created as a result of its consumption. Scotland and Wales have both introduced a minimum price of 50p per unit of alcohol in recent years.

(a) Using an example, show what is meant by an external cost in this case. [2 marks]

(Turn over)

Diagram for Question 21 (b)



21 (b)

The diagram opposite shows the private and social costs and benefits of alcohol production and consumption.

Outline how a minimum price could correct the market failure present in this case.

Adapt the diagram as part of your answer.

[4 marks]

[illegible]

(Turn over)

- 22. In the US, the Department of Agriculture has reported that sales of cow's milk have been falling at 6% per year, while the sales of nut and plant-based milks have been rising by 9% per year. One of the factors explaining the fall in demand for cow's milk is the falling popularity of breakfast cereals.**

To what extent can these trends be explained by cross price elasticity of demand? [7 marks]

(Turn over)

23. Study the data opposite on the UK economy.

(a) With the aid of the data, explain the relationship between the budget/fiscal deficit and periods of recession. [4 marks]

[illegible]

(Turn over)

23 (b)

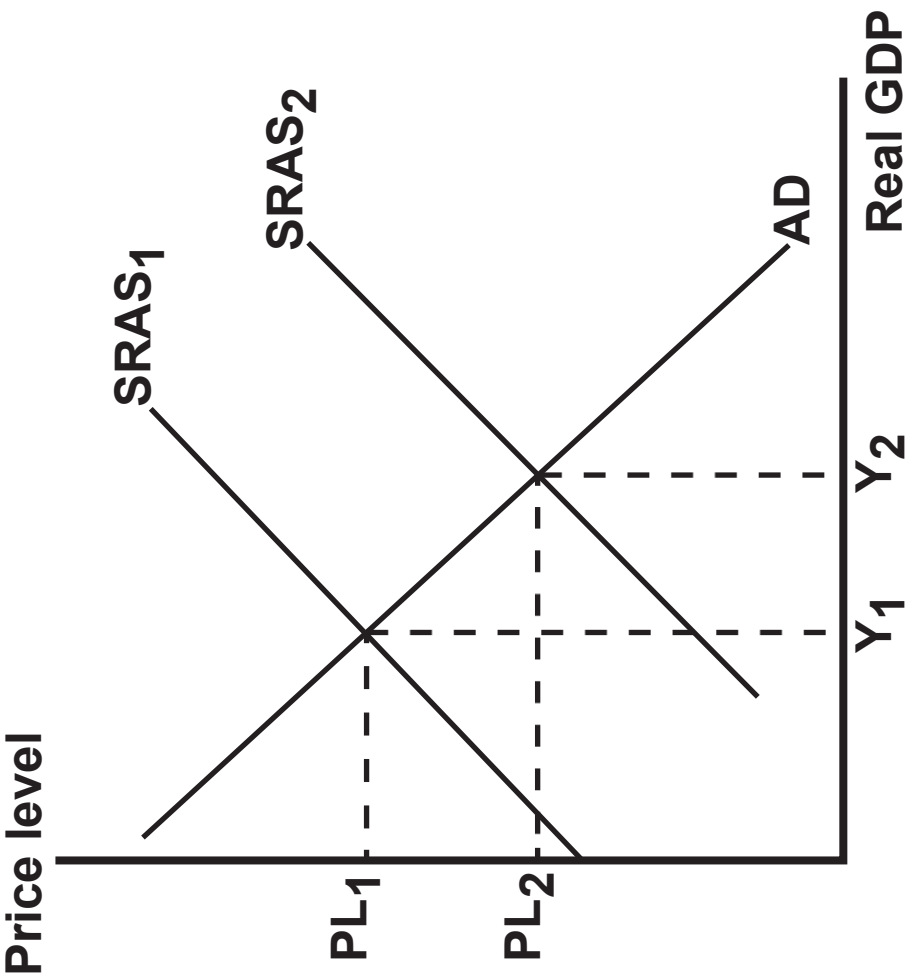
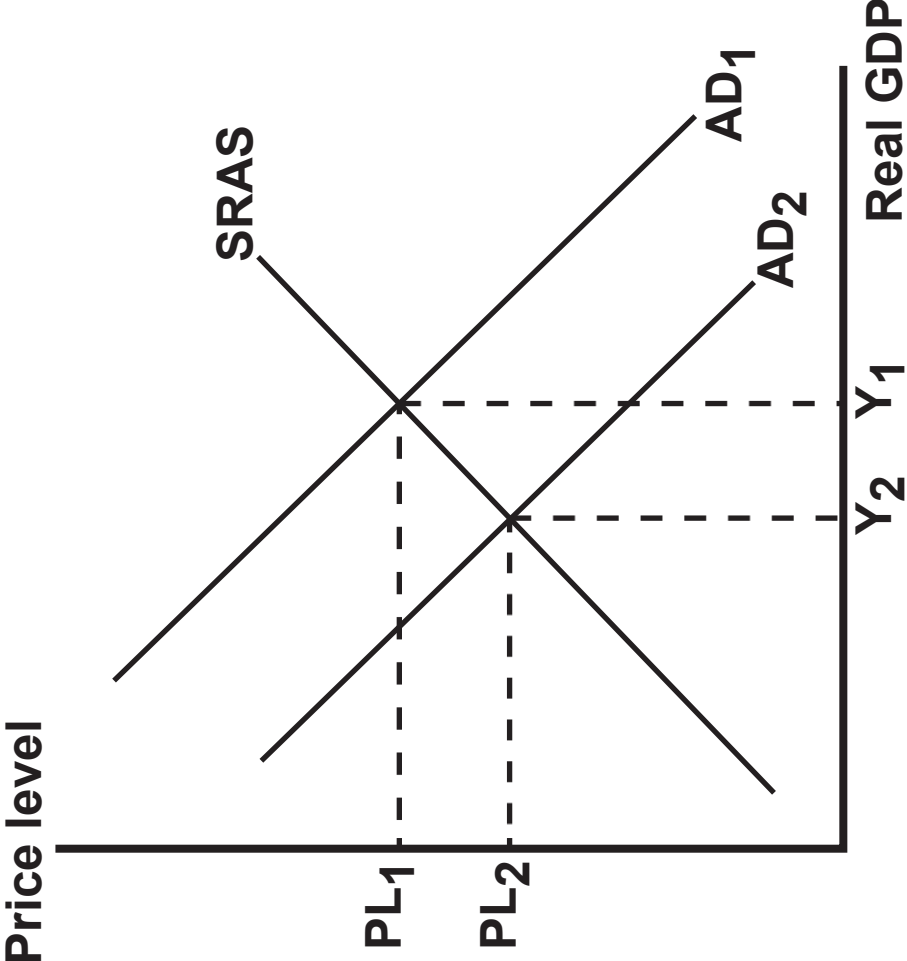
Discuss the view that a government should only ever borrow to finance capital expenditure.

[6 marks]

(Turn over)

[illegible]

Diagram for Question 24



24. Using the diagrams opposite, assess the extent to which deflation is always bad for an economy.

[8 marks]

[illegible]

(Turn over)

- 25. FIGURE 1 opposite shows the estimated impact on the annual economic growth rate in Africa (in percentage points) of a 1% increase in commodity prices.**

Explain the relationship shown in FIGURE 1 opposite and, with reference to FIGURE 2, consider the extent to which the relationship shown is beneficial for African economies.

[9 marks]

(Turn over)

END OF PAPER

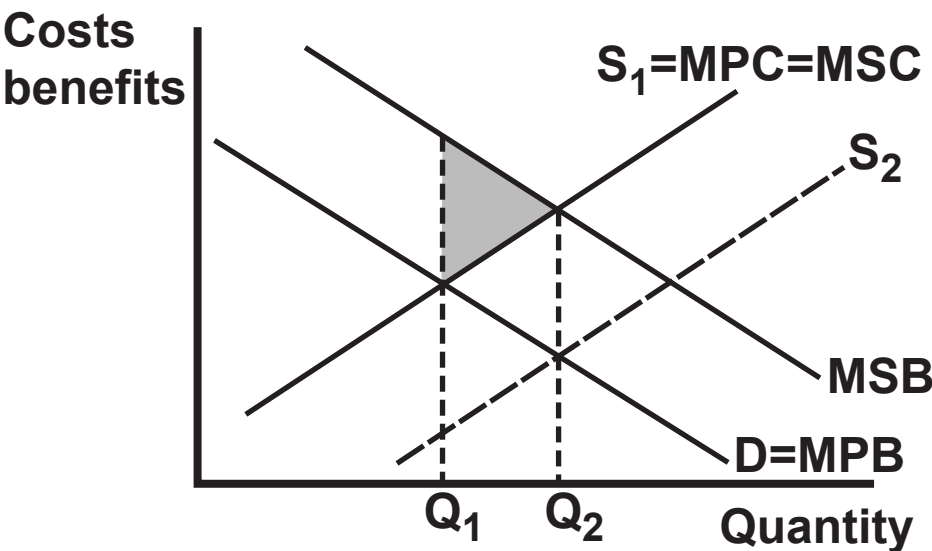
Question number	Additional page, if required. Write the question numbers in the left-hand margin.

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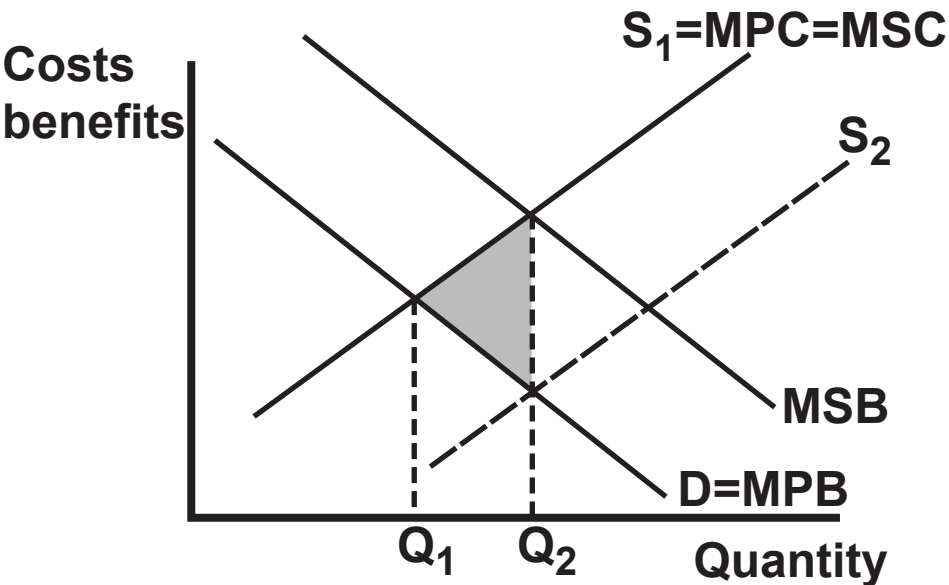
Question number	Additional page, if required. Write the question numbers in the left-hand margin.

Diagrams for Question 5

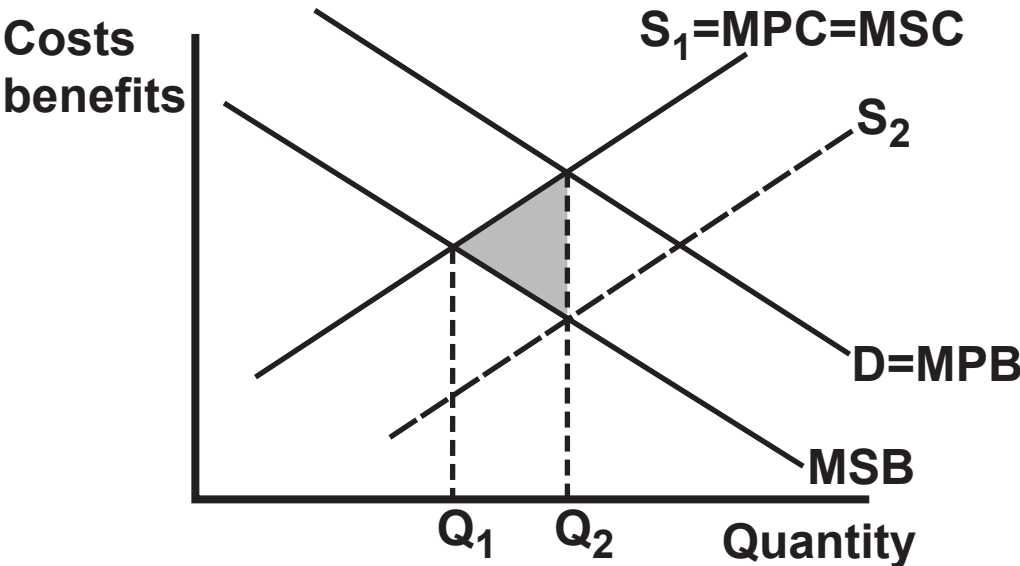
A



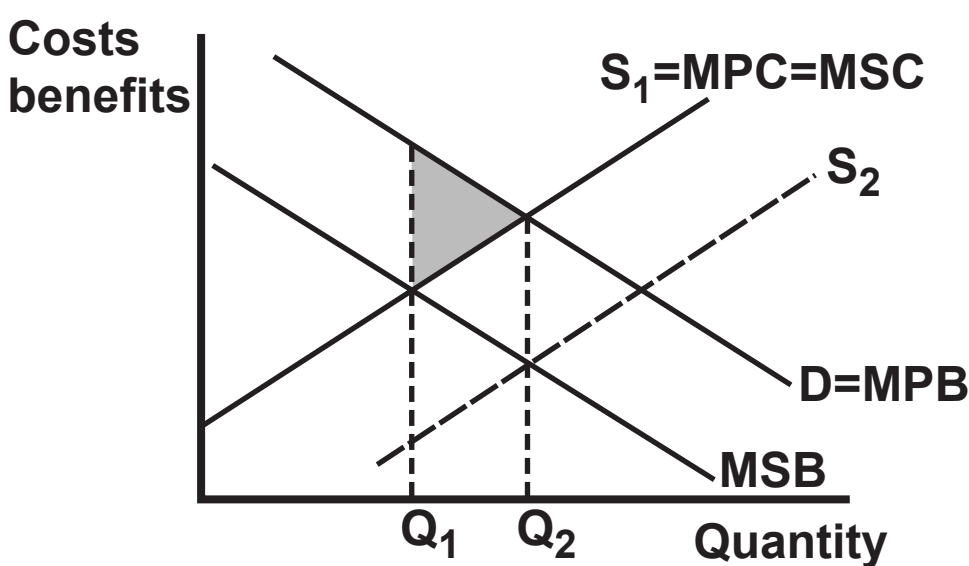
B



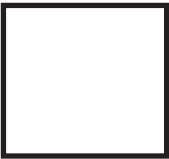
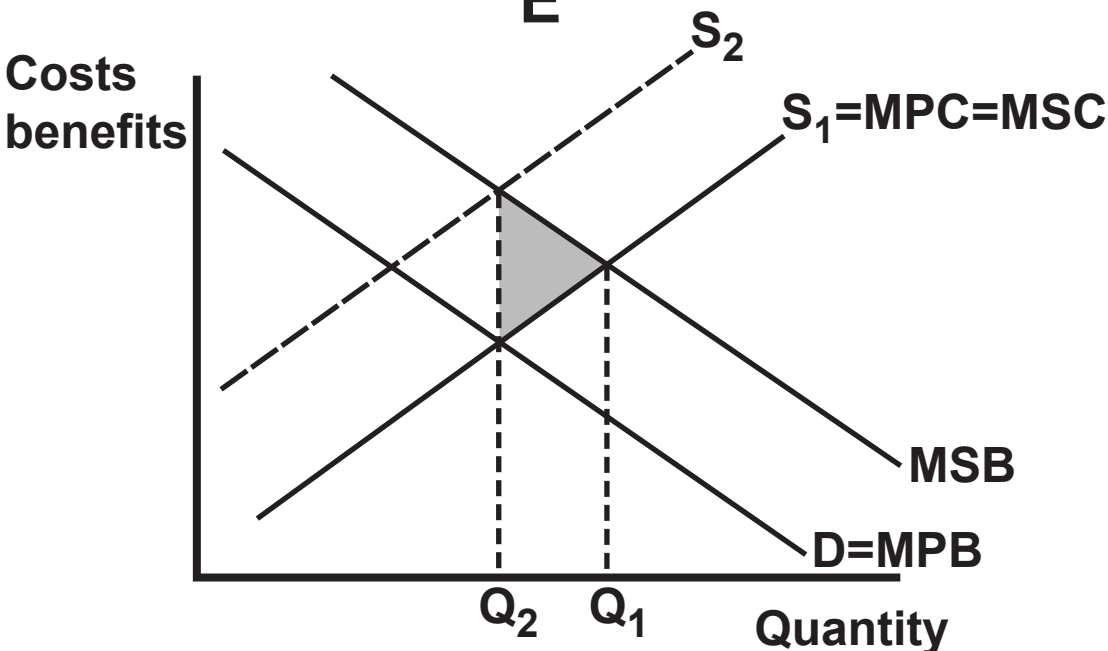
C

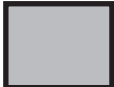


D

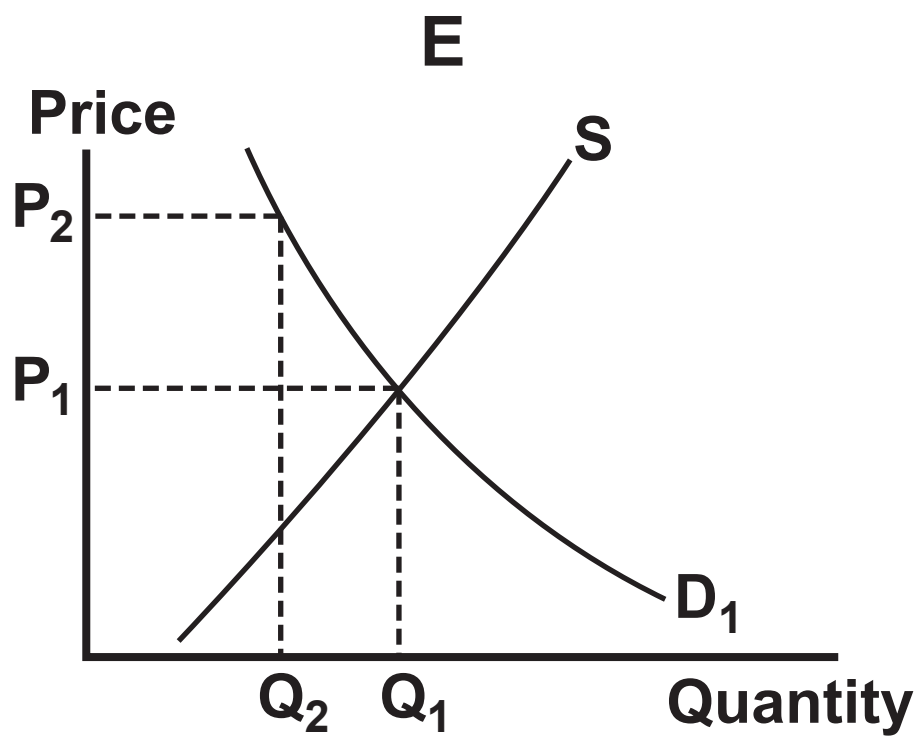
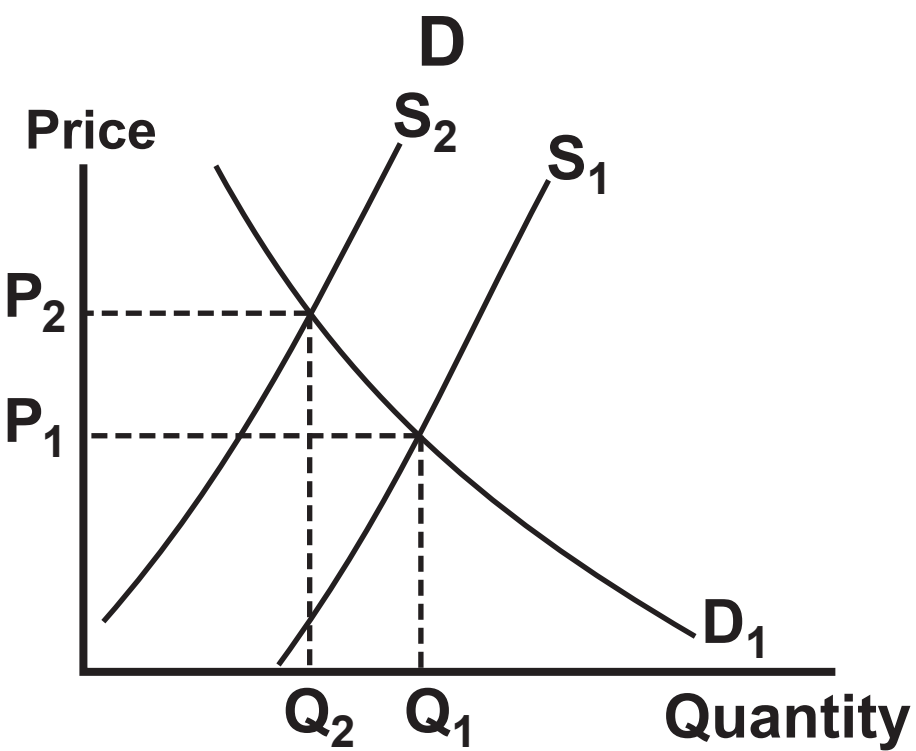
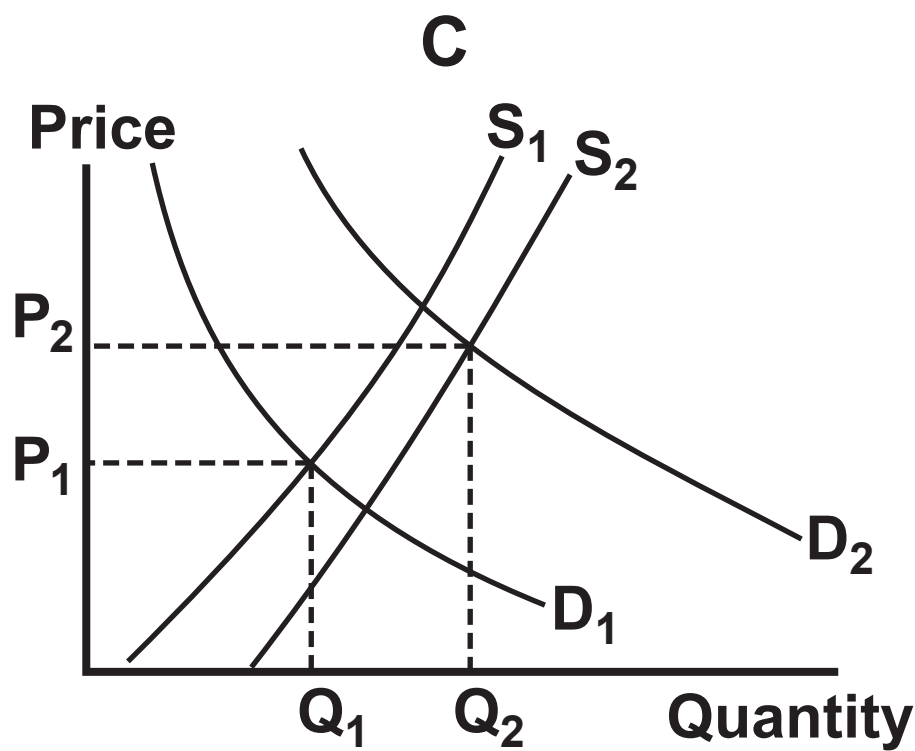
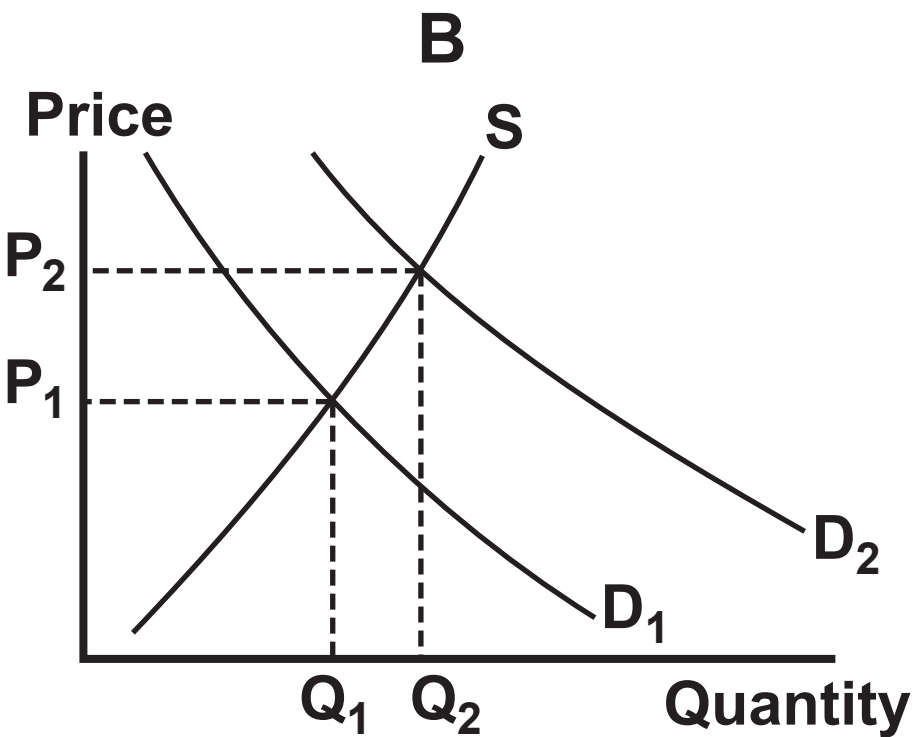
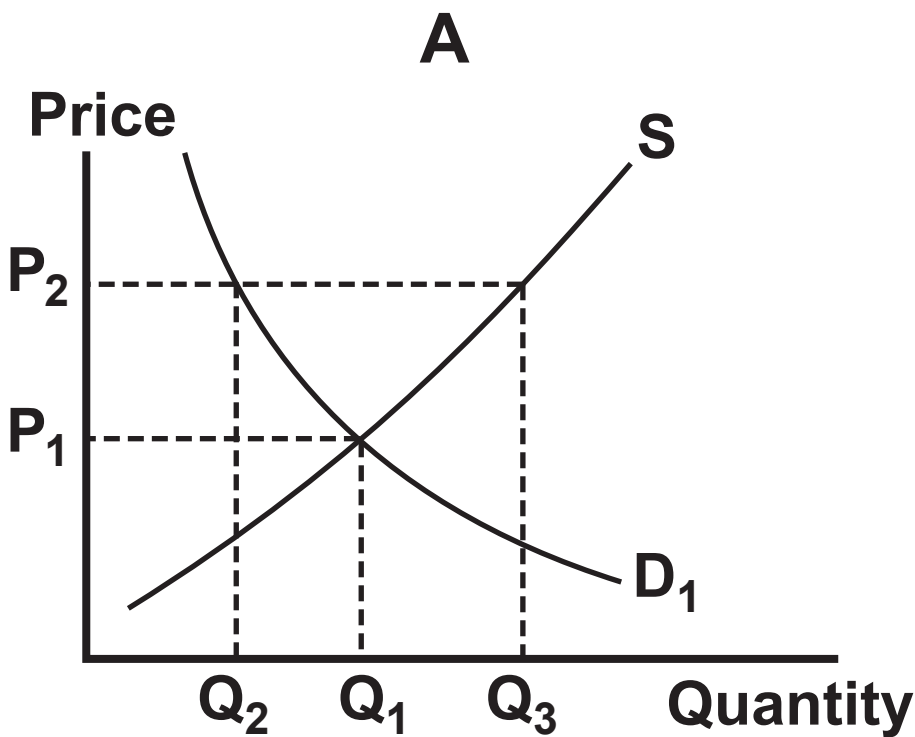


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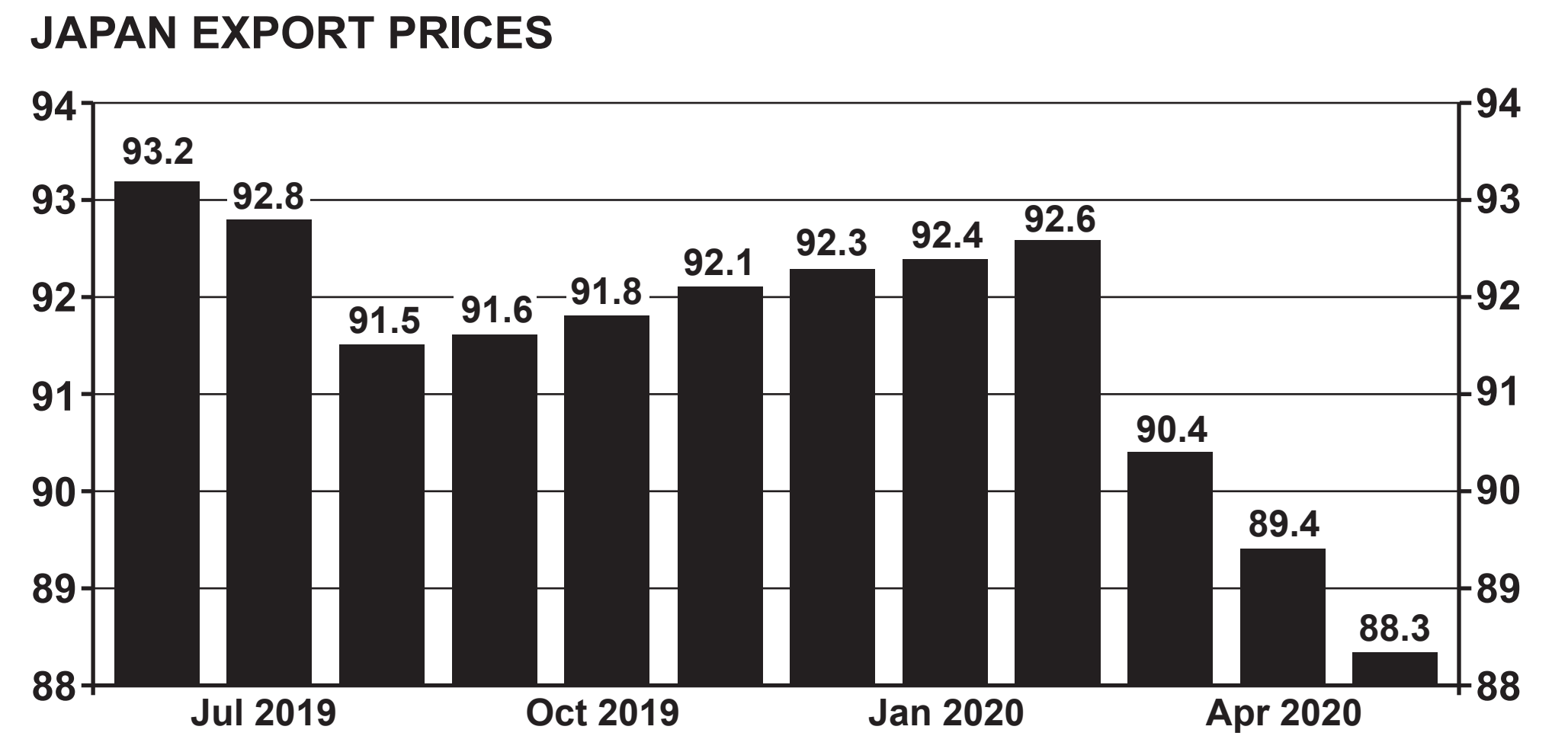


-  = Welfare loss at free market equilibrium
- MPC = marginal private cost
- MSC = marginal social cost
- MPB = marginal private benefit
- MSB = marginal social benefit

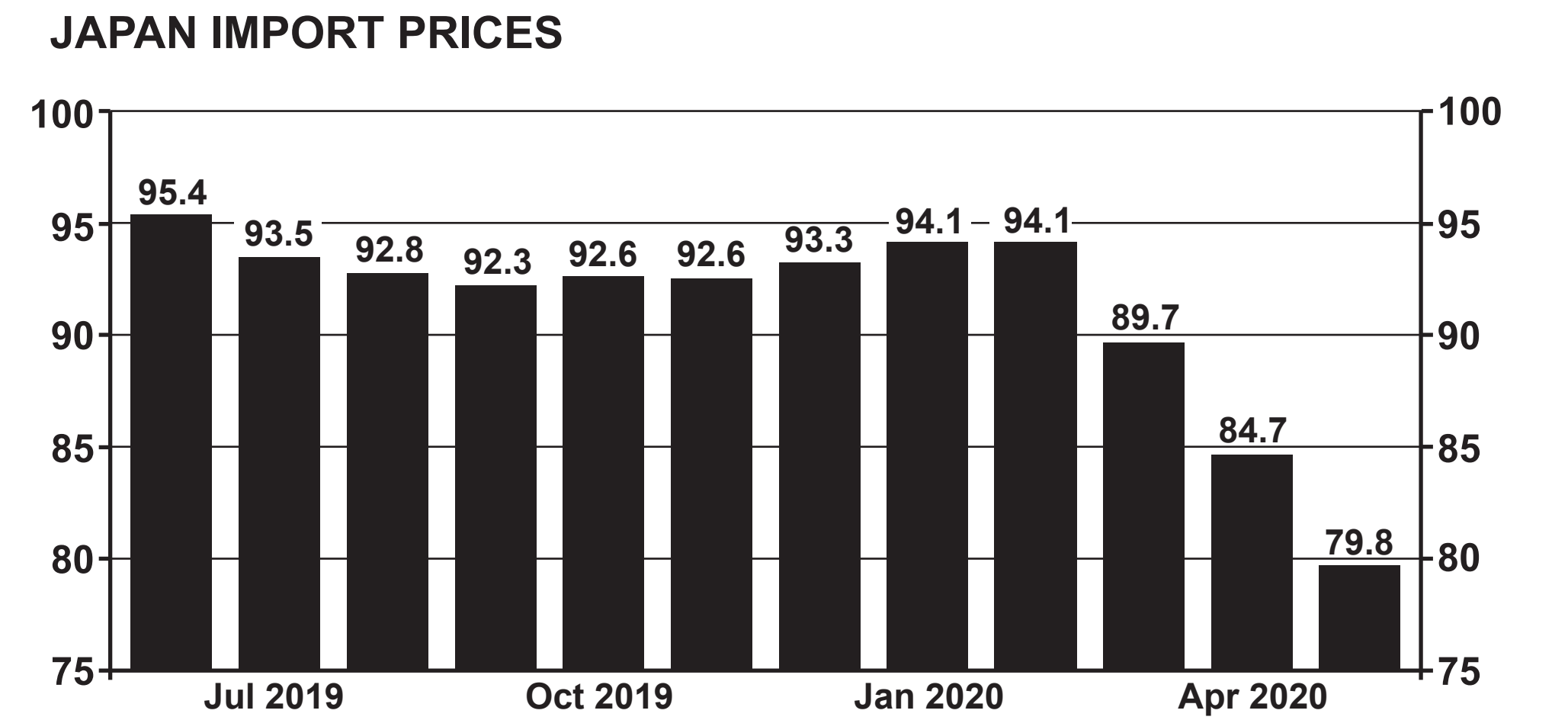
Diagrams for Question 14



Charts for Question 17



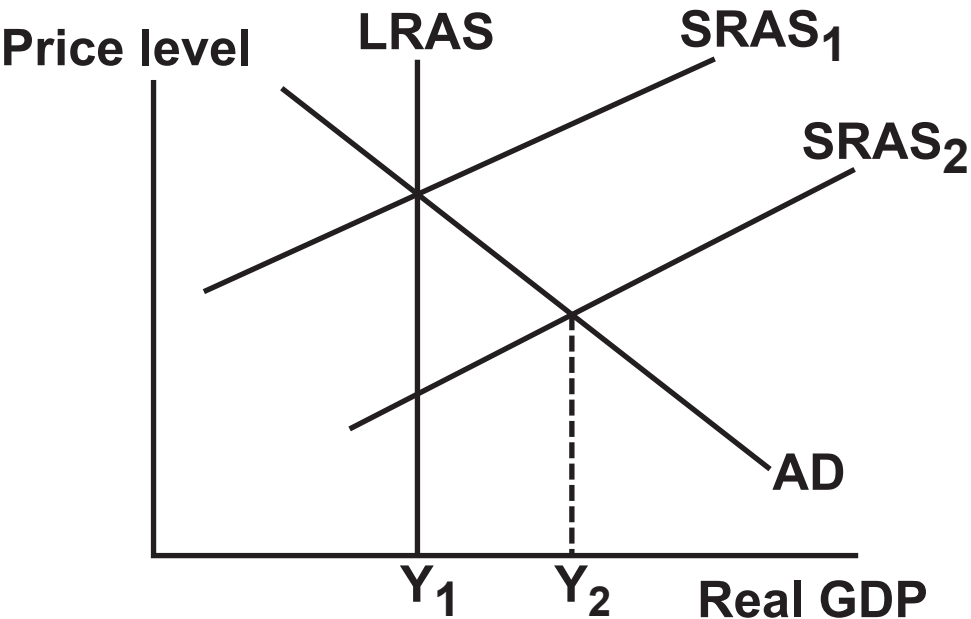
Source: [Tradingeconomics.com](https://tradingeconomics.com/japan/export-prices)/Bank of Japan



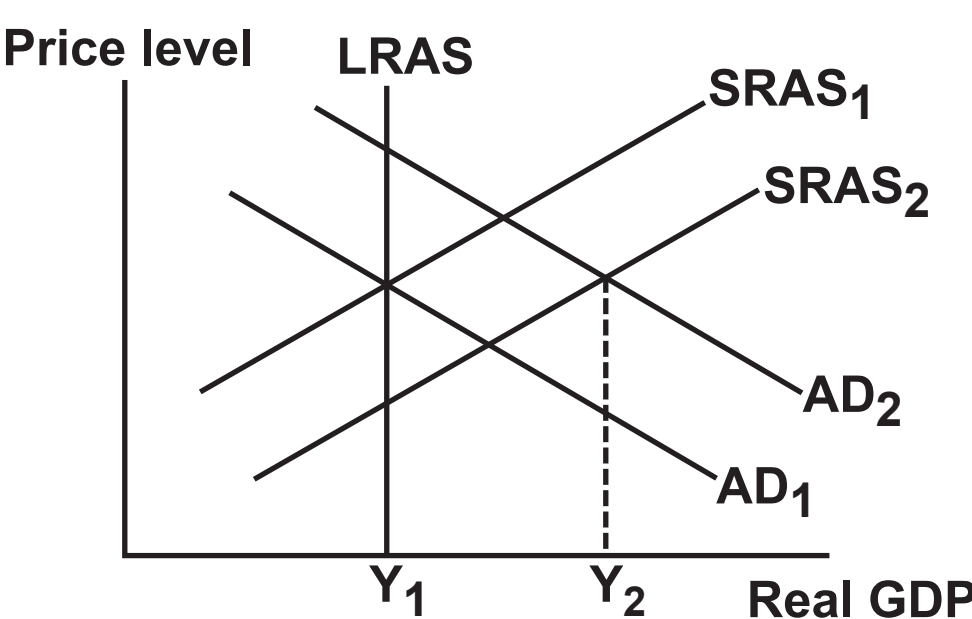
Source: [Tradingeconomics.com](https://tradingeconomics.com/japan/import-prices)/Bank of Japan

Diagrams for Question 18

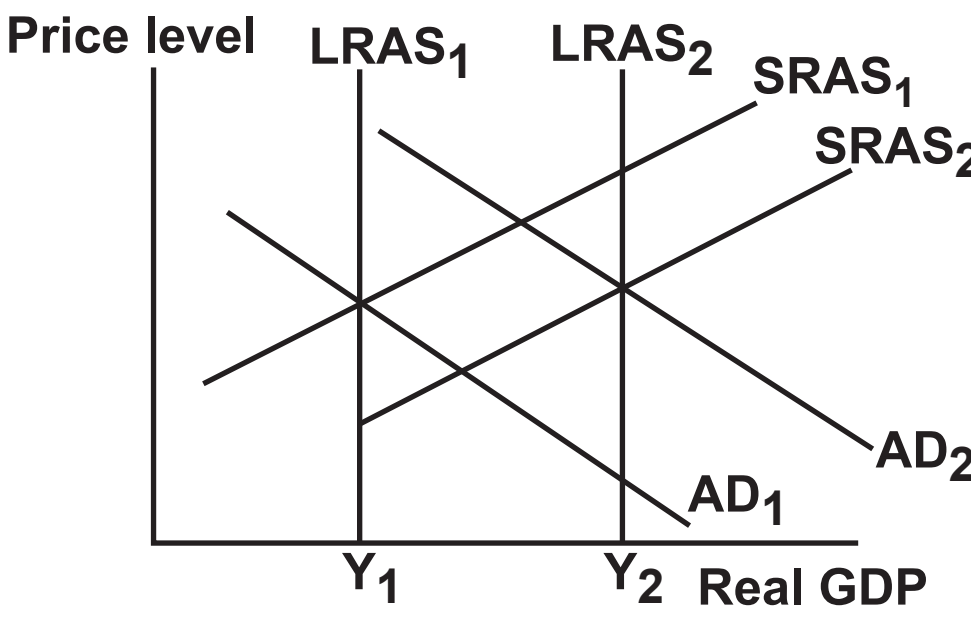
A



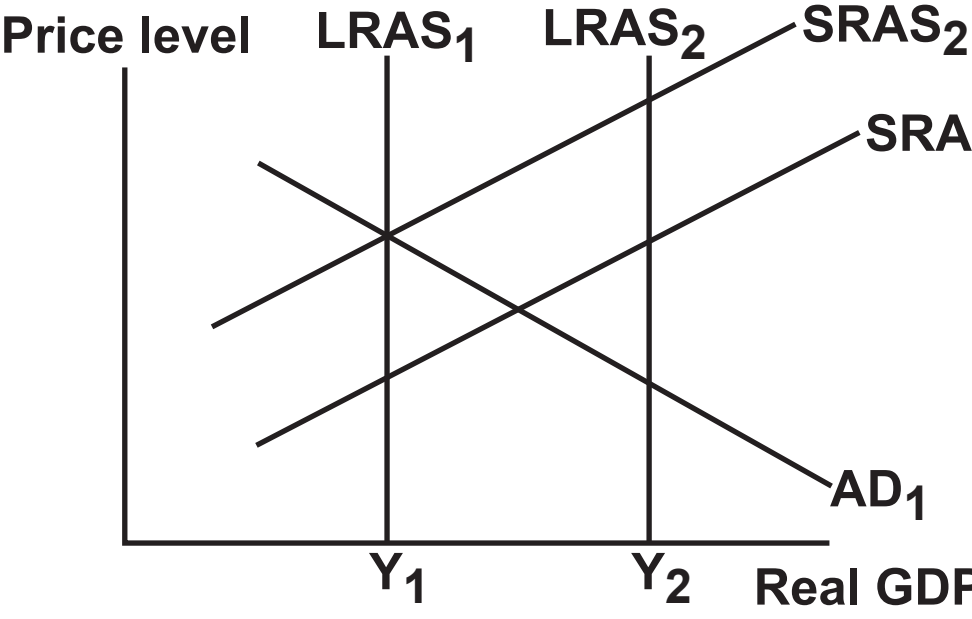
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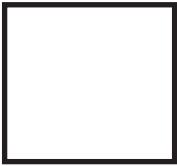
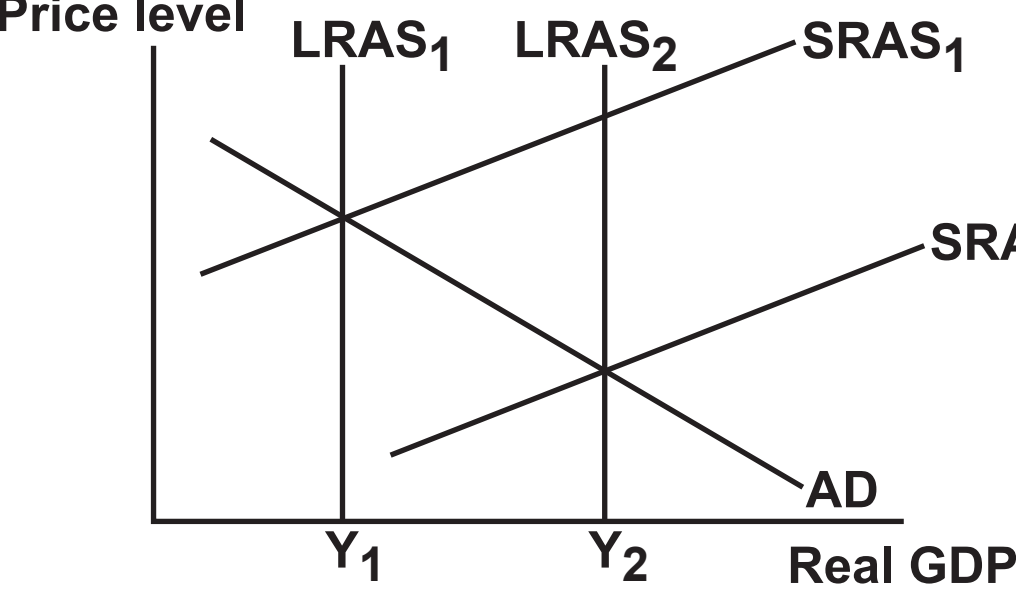
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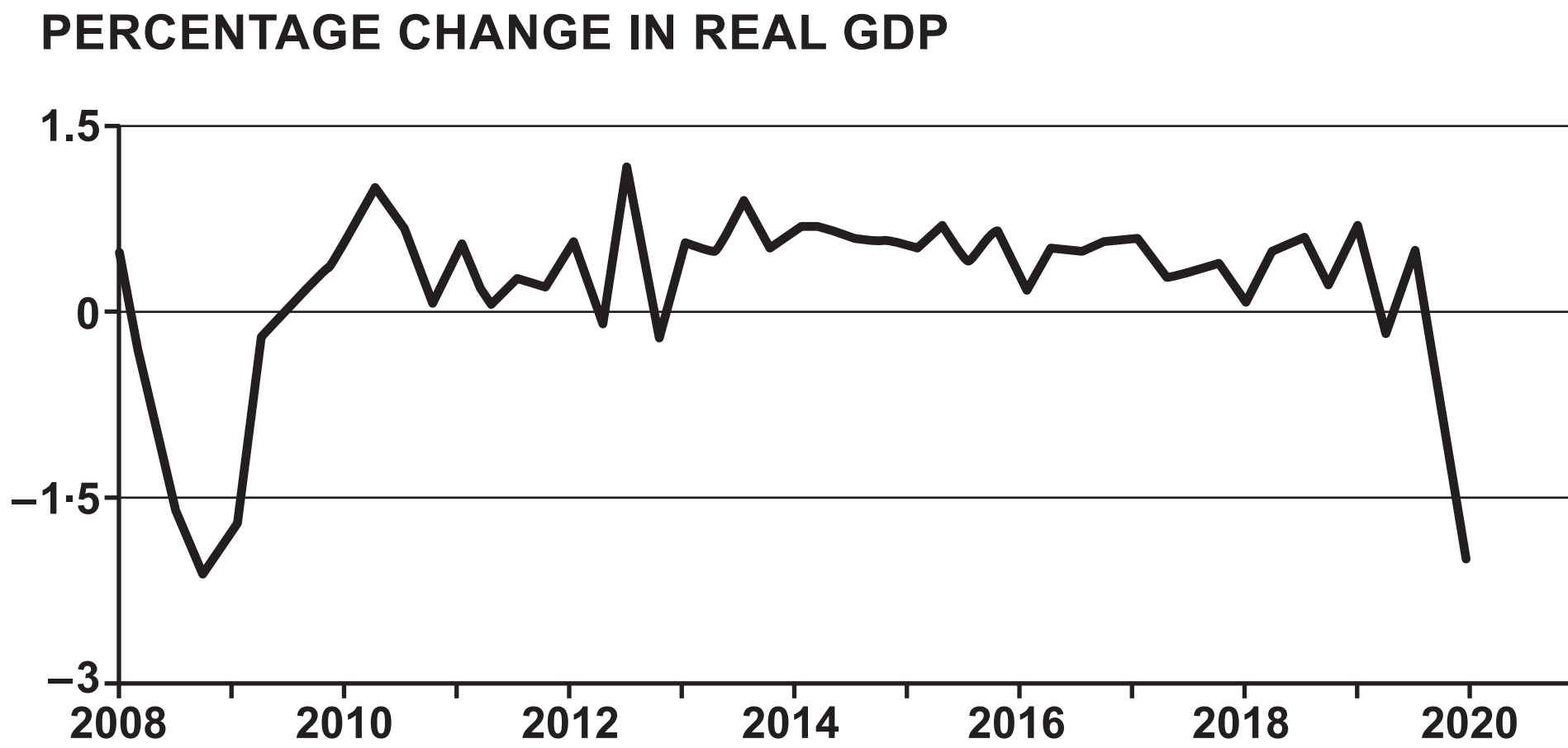
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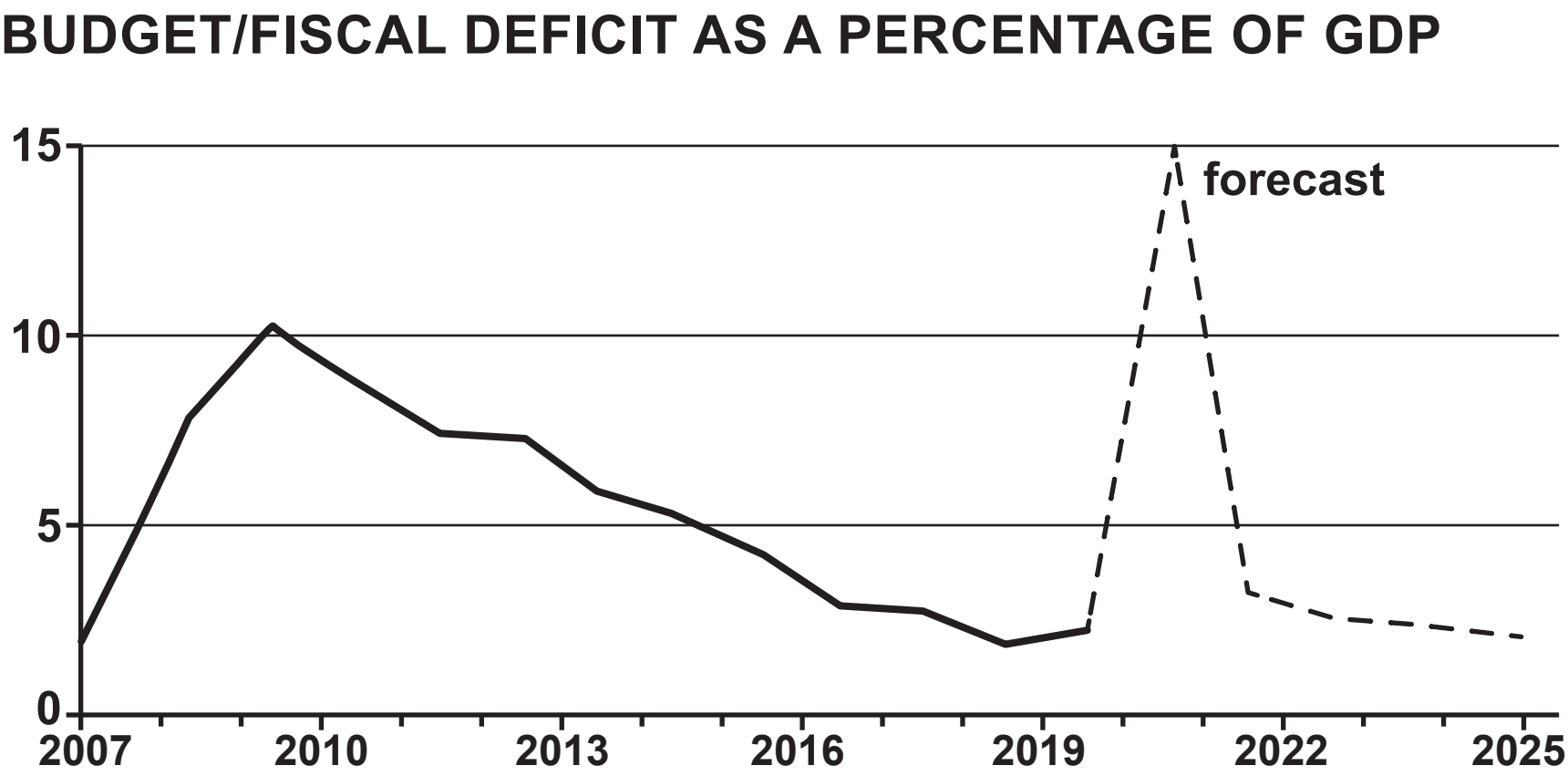
E



Data for Question 23



Source: Office for National Statistics



Source: Office for National Statistics.

FIGURE 1

	ALL COMMODITIES	FOOD	AGRICULTURAL RAW MATERIALS	‘HARD’ COMMODITIES (MAINLY MINING AND EXTRACTION)	ENERGY
Short run impact on economic growth	0.21%	0.36%	0.37%	0.26%	0.27%
Long run impact on economic growth	1.75%	1.16%	2.18%	0.94%	1.13%

FIGURE 2

