



GCE AS – **NEW**



B520U10-1

ECONOMICS – AS COMPONENT 1

INTRODUCTION TO ECONOMIC PRINCIPLES

MONDAY, 15 MAY 2017 – MORNING

1 hour plus your additional time allowance

Surname _____

Other Names _____

Centre Number _____

Candidate Number 2 _____

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	3	
2.	10	
3.	8	
4.	8	
5.	10	
6.	10	
7.	11	
Total	60	

ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

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

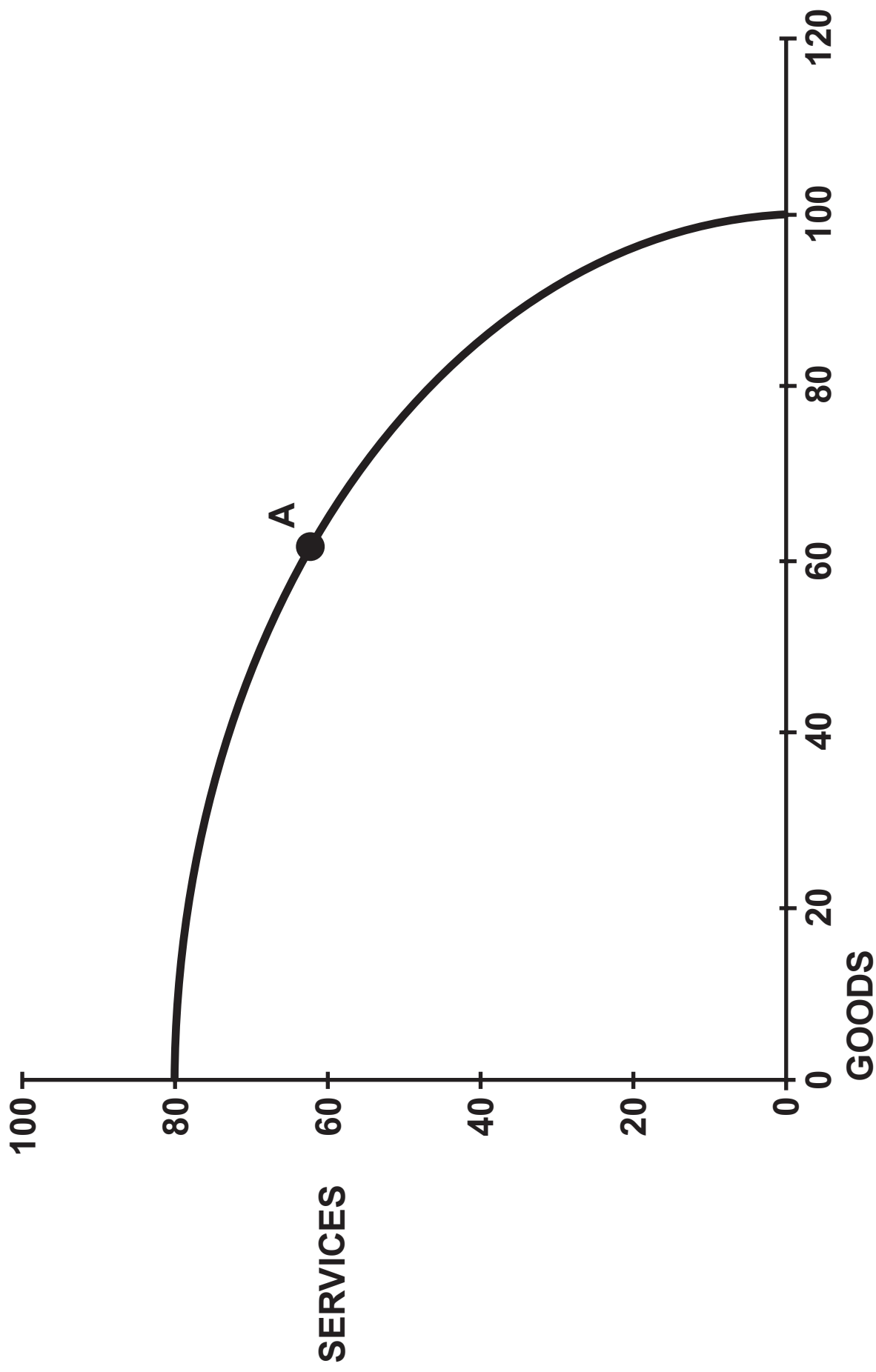
Write your name, centre number and candidate number in the spaces provided on the front cover.

Answer ALL the questions in the spaces provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

PPF OF GOODS AND SERVICES



Answer ALL the questions in the spaces provided.

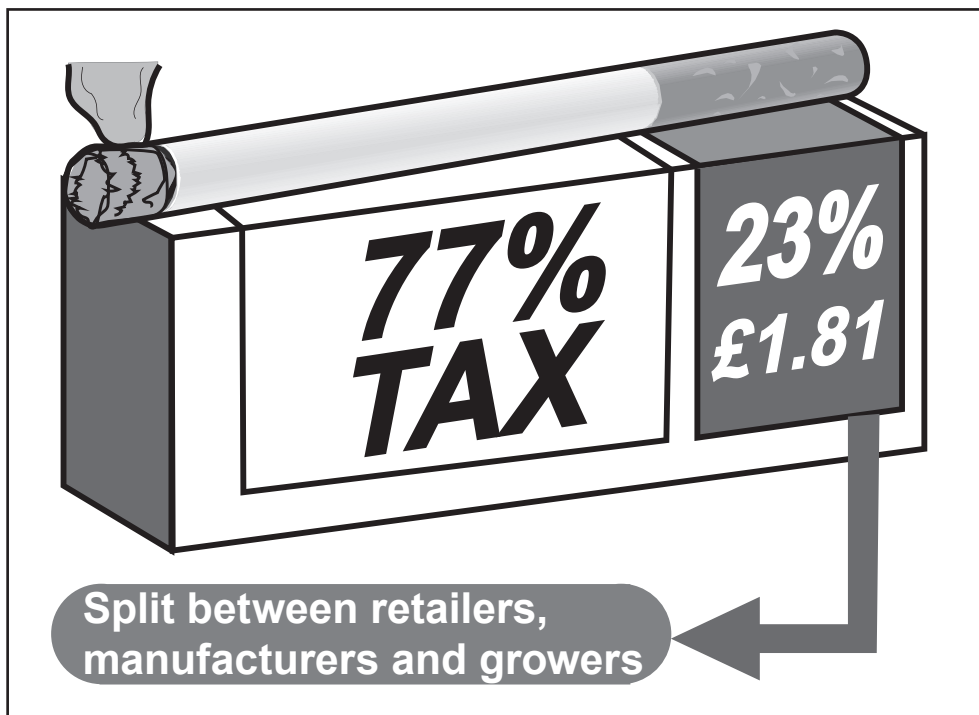
- 1. An economy is initially operating on its production possibility frontier (PPF) at point A. Aggregate demand then drops sharply.**

Adapt the production possibility diagram opposite to show the likely short run effects on the economy. Give reasons for your answer. [3]

3

2. Study the information below and answer the questions that follow.

PRICE BREAKDOWN OF LEGAL CIGARETTES



Smokers turning to the black market are gambling with their health and young people, seen as ‘the perfect customer’ by illegal suppliers of counterfeit cigarettes, are most at risk of harm.

Illegal tobacco can contain more than double the amount of harmful substances found in legal tobacco with a tobacco health consultant saying:

“Often people think that illegal tobacco is a good way to save money and they think that it is no different to what they buy from supermarkets or newsagents. All cigarettes are dangerous, but counterfeit cigarettes are even more so because they are not subject to any controls.”

2(a) Using the data opposite:

- (i) Calculate the average price of a packet of cigarettes. [1]**

- (ii) Calculate how much tax is paid on an average packet of cigarettes. [1]**

2(c) With reference to the data, outline how the high taxation of cigarettes might lead to government failure. [4]

[illegible]

3. **Market failure doesn't only occur in the markets for goods and services, it can also occur in labour markets. Analysts have long argued that training workers not only provides benefits to the firms themselves, but also EXTERNAL BENEFITS to the wider economy. Furthermore there may be INFORMATION ASYMMETRIES in the process of hiring new staff. A recent report found that 1 in 4 job applicants had lied on their job application forms.**

- (a) **Define what is meant by market failure. [2]**

3(b) Describe how market failure might occur in labour markets as a result of:

(i) external benefits. [3]

3(b) (ii) information asymmetry. [3]

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

4. According to academic studies in California, the price elasticity of supply of almonds is around 0.1. The price elasticity of demand is estimated to be around -0.25 .

Between 2014 and 2015 almond prices rose from around \$6.40 per kilogram to around \$8.

In 2014, the average American ate around 1 kilogram of almonds per year and Californian almond production was 840 million kilograms.

Other things being equal:

- (a) Calculate the amount spent on almonds each year by the average American following the price rise.

[5]

4(b) Calculate the likely impact of the price rise on Californian almond production. [3]

5. According to the July 2015 National Infrastructure Pipeline Factsheet there are £101 bn of infrastructure projects planned by the UK Government over the next few years. Some of the projects already underway include:

- Major road improvements on the motorway network near London, Manchester and Sunderland**
- Intercity Express Programme (investing in new trains and carriages)**
- Investment in offshore wind energy to reduce the UK's carbon emissions and energy costs**

Part of the reason for these government sector projects is to try to increase the amount of PRIVATE SECTOR INVESTMENT undertaken by business. Business investment as a proportion of GDP is still below its 2007 levels.

Source: National Infrastructure Pipeline Factsheet

- 5. Discuss the extent to which infrastructure investment projects such as those identified above will help the UK to “increase the amount of PRIVATE SECTOR INVESTMENT undertaken by business”. [10]**

[illegible]

10

6. In August 2015 the Bank of England's Monetary Policy Committee voted 8-1 to keep interest rates at 0.5%. What was significant was that one member, Ian McCafferty, did vote for an increase to 0.75%.

McCafferty argued that wages were rising strongly, consumer confidence was high and unemployment was forecast to fall, meaning that a rate rise was needed now.

Until recently, the fear has been that increasing rates too soon would hit economic growth hard, especially at a time when growth in China is slowing and the problems in the eurozone show no sign of ending.

Source: Adapted from bbc.co.uk/news

- 6. Using an AD/AS diagram EXPLAIN why, in theory, an increase in interest rates to 0.75% ‘would hit economic growth hard’ and DISCUSS whether it would be likely to do so given the situation outlined in the data. [10]**

[illegible]

10

7. In the first half of 2015 the value of Kazakhstan's exports (largely oil and metals) fell by 40% partly as a result of falling global prices for these commodities. In addition the currencies of Russia, China and Vietnam, three of Kazakhstan's major trading rivals had depreciated over the period. As a result Kazakhstan's current account balance worsened.

In August 2015 the Government of Kazakhstan announced that it was allowing its currency (the tenge) to float freely rather than being held above its free market level. The tenge immediately fell by 20% against other currencies.

- (a) Using a supply and demand diagram, explain briefly how the Government of Kazakhstan could hold the value of the tenge above its free market exchange rate. [3]

7(b) With reference to the data, discuss whether the depreciation of the tenge will be likely to improve Kazakhstan's current account balance. [8]

[illegible]

