



GCE A LEVEL



A520U10-1

MONDAY, 20 MAY 2019 – MORNING

ECONOMICS – A level component 1

Economic Principles

1 hour 30 minutes plus your additional time allowance

Surname _____

Other Names _____

Centre Number _____

Candidate Number 2 _____

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1-20	20	
21	6	
22	6	
23	12	
24	6	
25	10	
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 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%

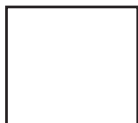
D +23.1%

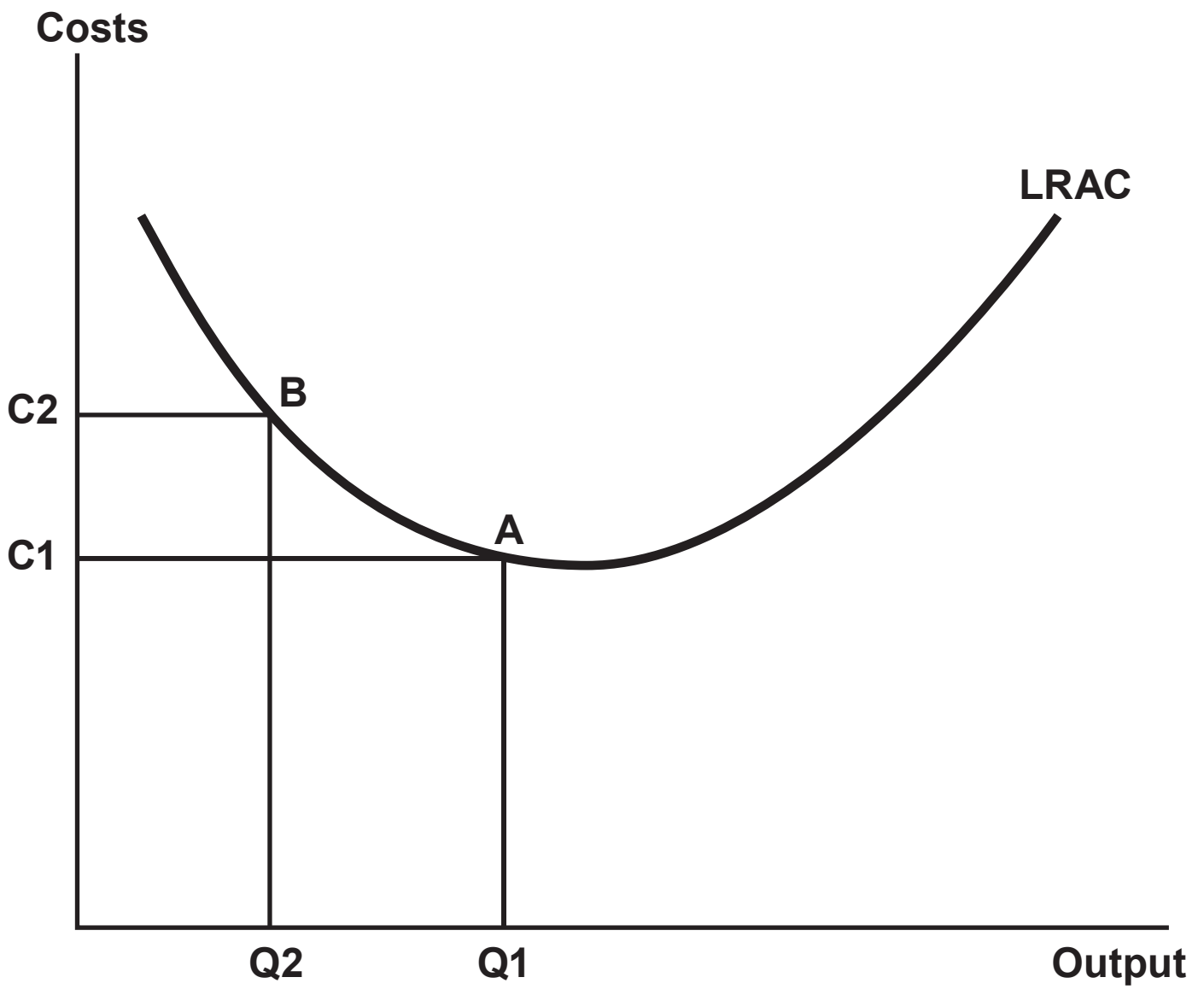
E +30%



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





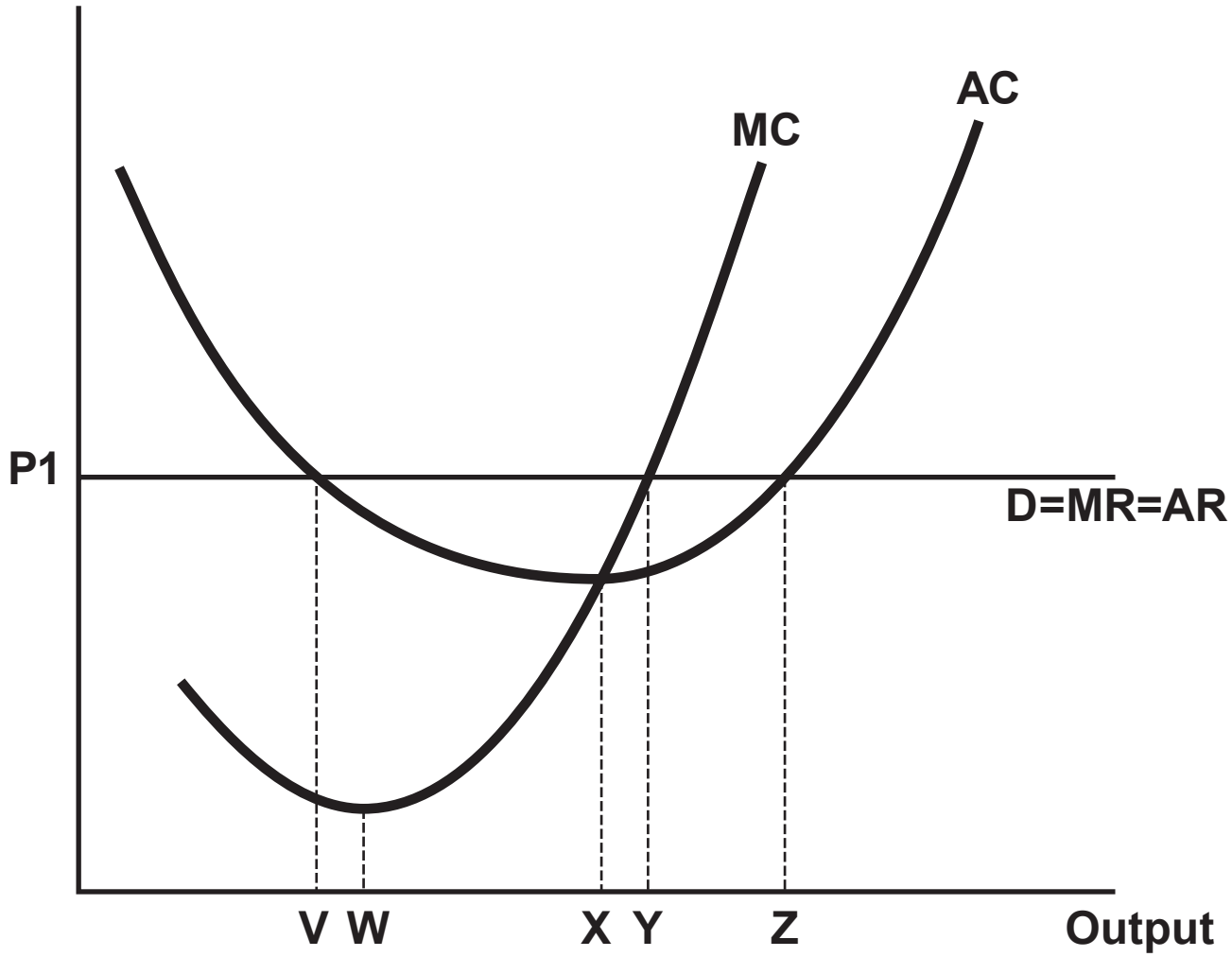
4. The diagram opposite shows the long run average cost curve (LRAC) for a firm:

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



Costs and revenues (£)



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

[1]

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]

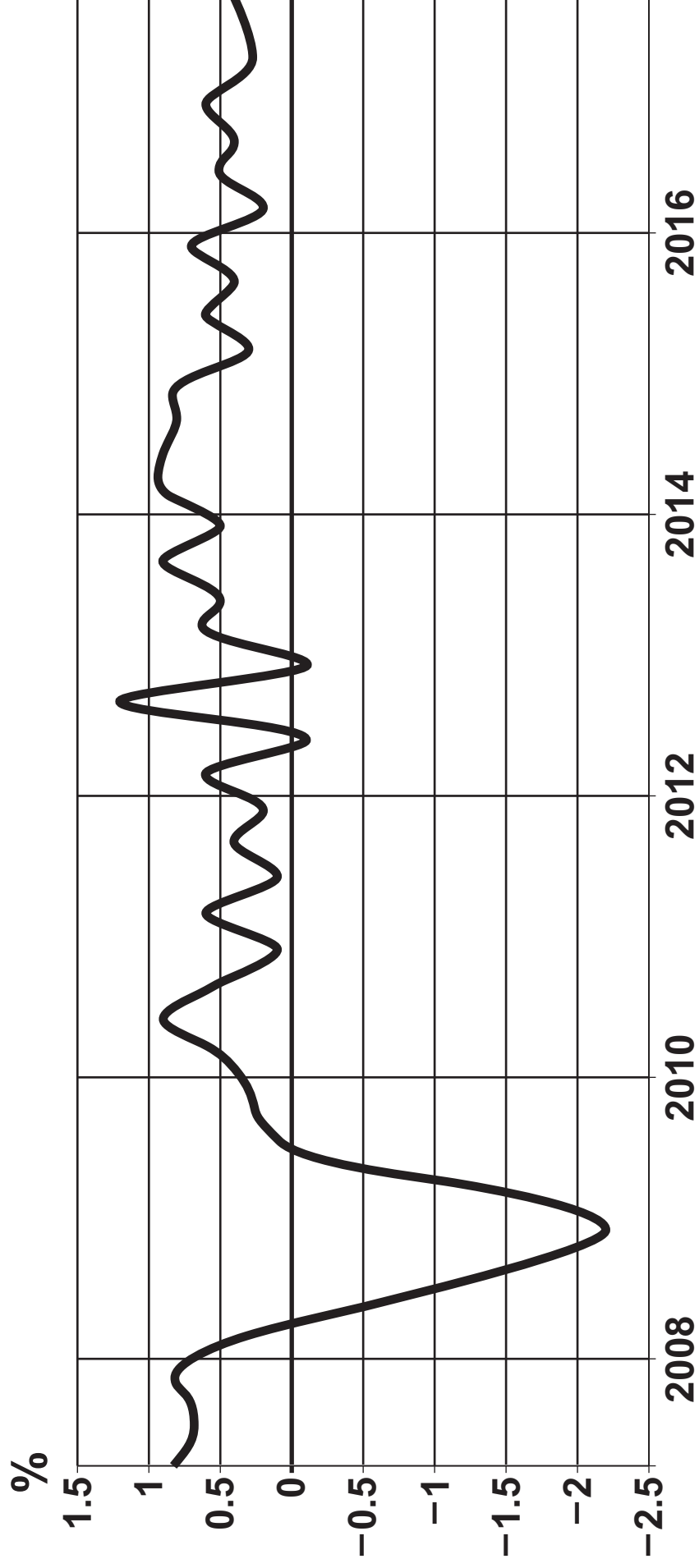
- A £300
- B £400
- C £450
- D £1500
- E £2000

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**



UK GDP GROWTH RATE

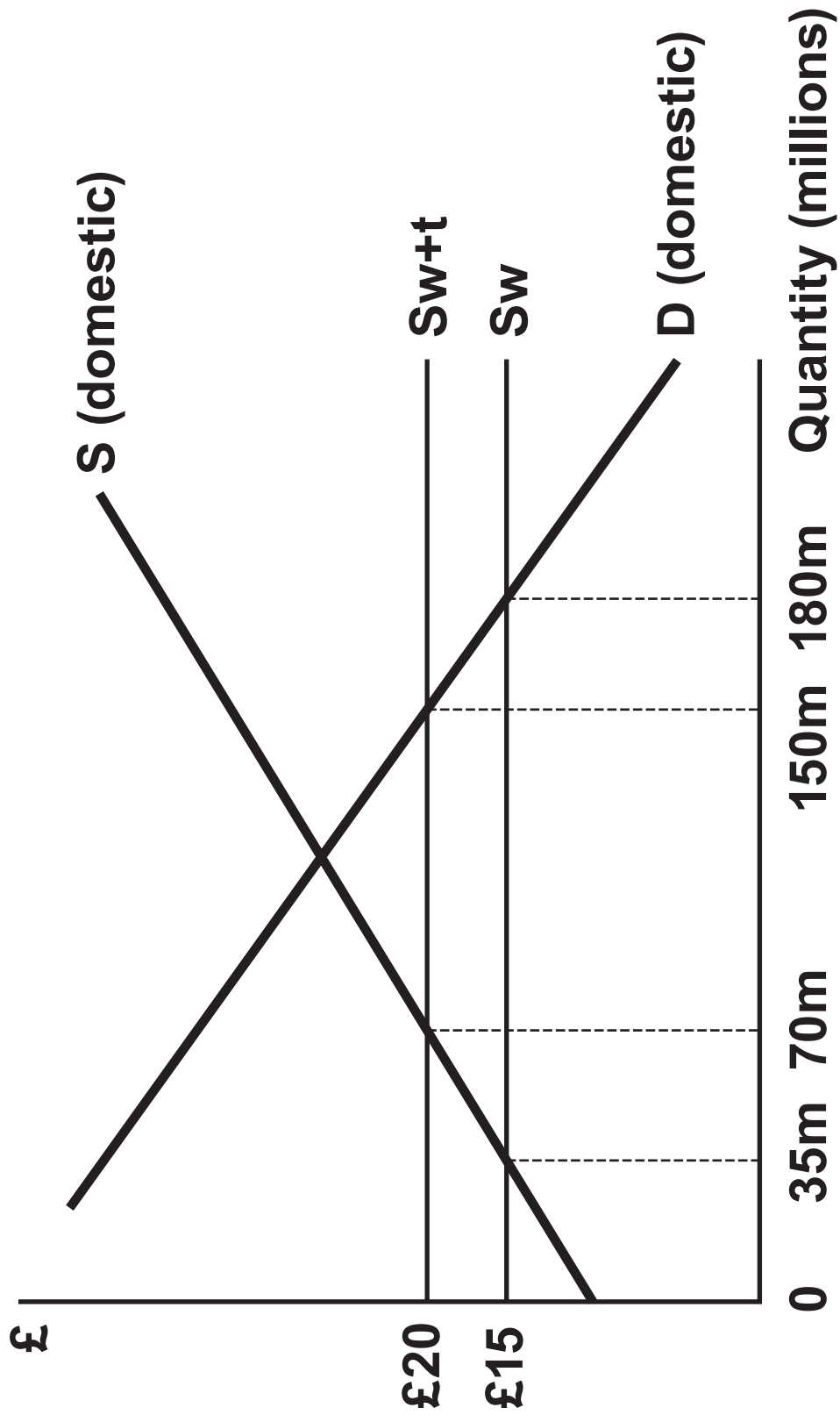


Source: Tradingeconomics.com, Office for National Statistics

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

- 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 opposite 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



GOOD	WEIGHT	PRICE INDEX (2010=100)
Food and drink	200	110
Housing	300	90
Leisure	150	100
Transport	250	100
Communications	100	120

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

The price index for the economy in 2018 is: [1]

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



WORLD ECONOMIC GROWTH FORECASTS
(annual % changes)

	ACTUAL		FORECASTS	
	2015	2016	2017	2018
WORLD OUTPUT (the average growth rate of Advanced and Non-Advanced Economies)	3.2	3.1	3.4	3.6
ADVANCED ECONOMIES	2.1	1.6	1.9	2.0
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

11. Study the table opposite on economic growth rates

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, 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 opposite gives information on the global aerospace industry

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 opposite gives information on global population trends.**

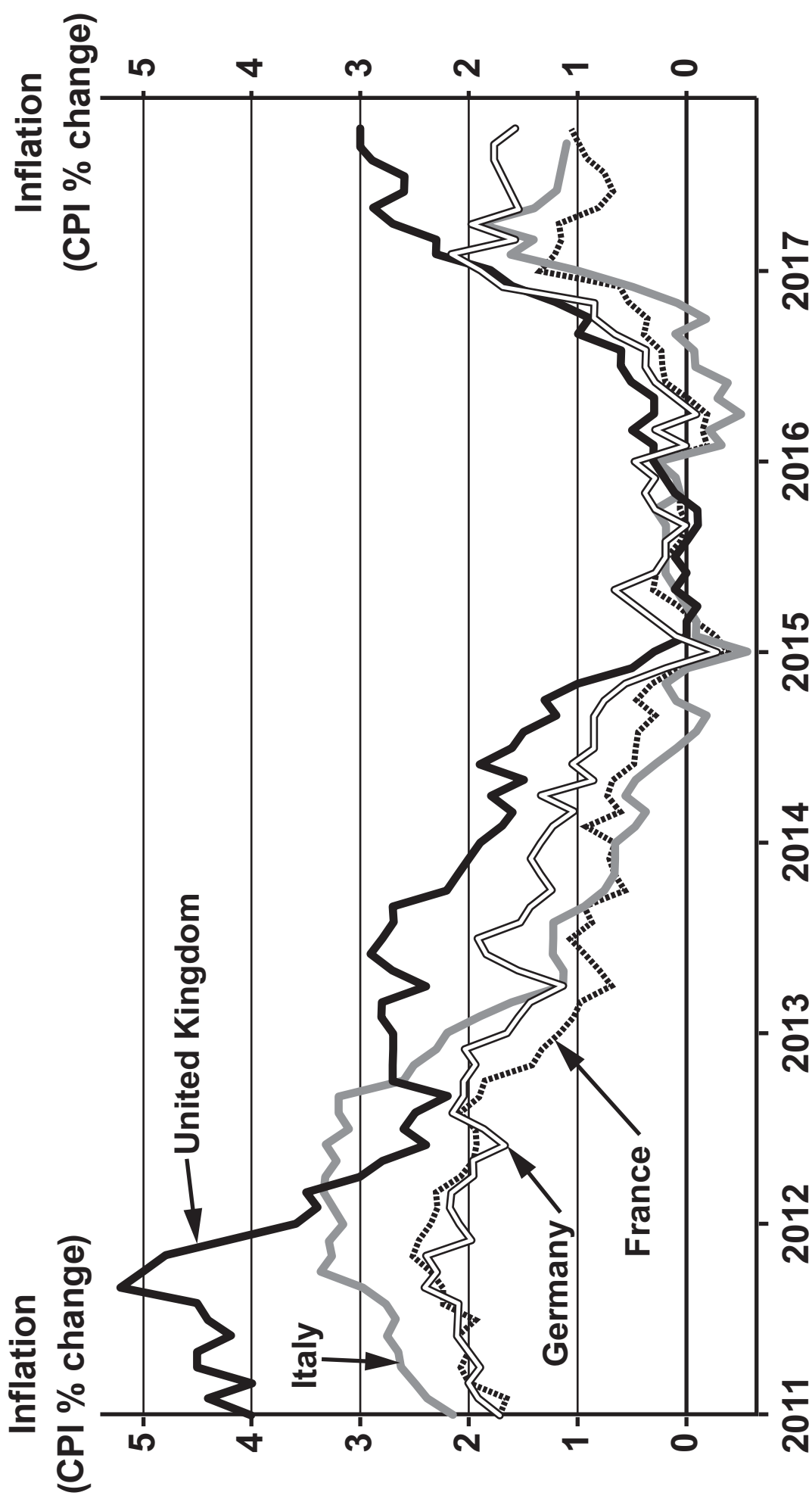
Over the period 2015 to 2050, global population is predicted to rise. It can safely be concluded from this data that: [1]

- 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**



INFLATION (CPI)

Total, annual growth rate (%), Jan 2011 - Oct 2017



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

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

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



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

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

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

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

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

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

A £550

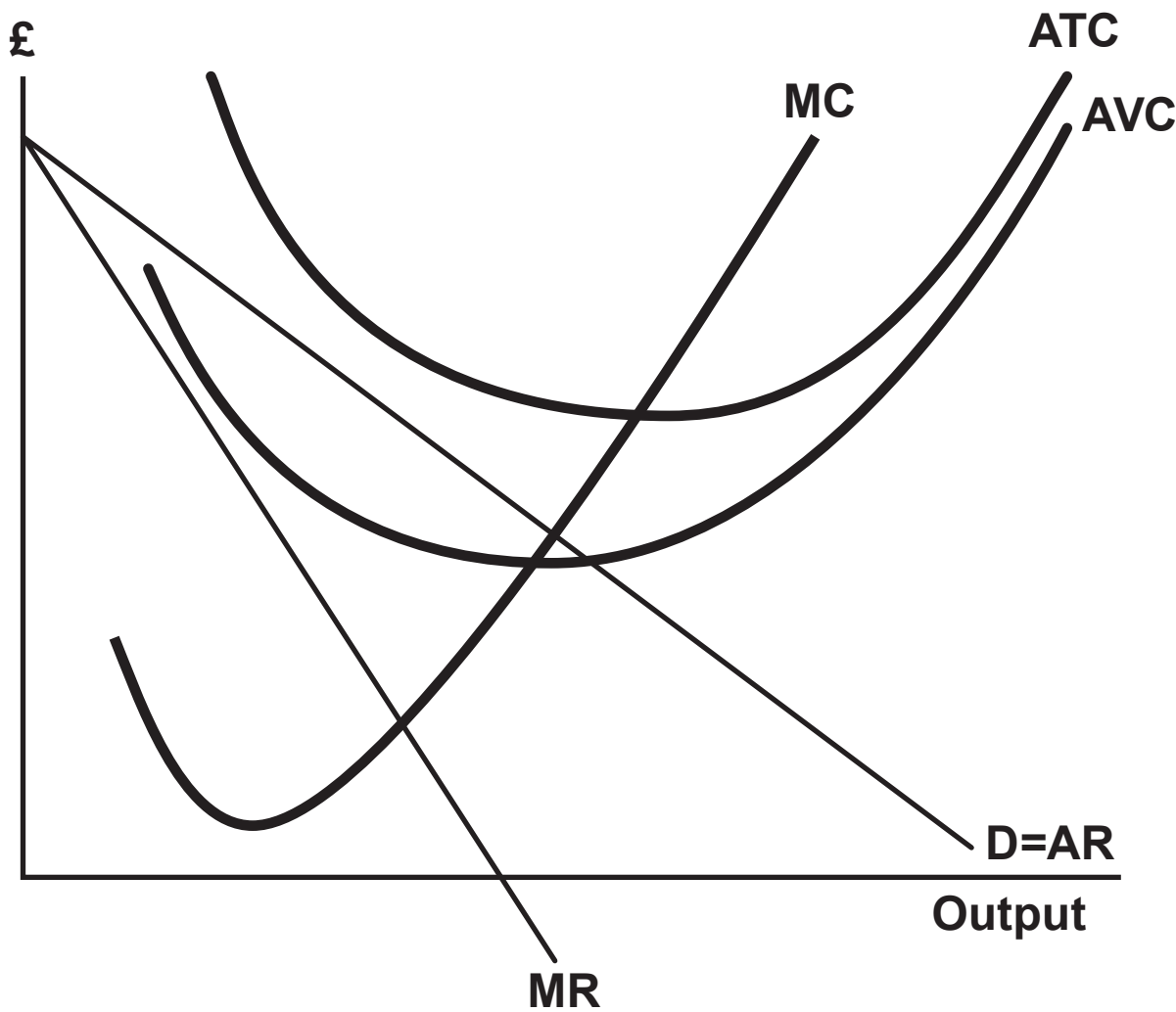
B £610

C £670

D £777

E £1 205

Costs and revenue



SECTION B

Answer ALL the questions in the spaces provided.

- 21. The diagram opposite shows a profit maximising firm in an imperfect market.**

Discuss whether this firm should continue to operate? (Adapt the diagram to support your answer). [6]

[illegible]

6

- 22. Figure 1 opposite 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.**

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

[6]

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.

6

- 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]**

[2]

[illegible]

23(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]

[illegible]

[illegible]

IMPACT OF STAMP DUTY CHANGES ON FIRST-TIME BUYERS		
PROPERTY PURCHASE PRICE	OLD STAMP DUTY	NEW STAMP DUTY FOR FIRST-TIME BUYERS
£100 000	£0	£0
£150 000	£500	£0
£200 000	£1 500	£0
£250 000	£2 500	£0
£300 000	£5 000	£0
£400 000	£10 000	£5 000

Source: <http://www.thisismoney.co.uk>

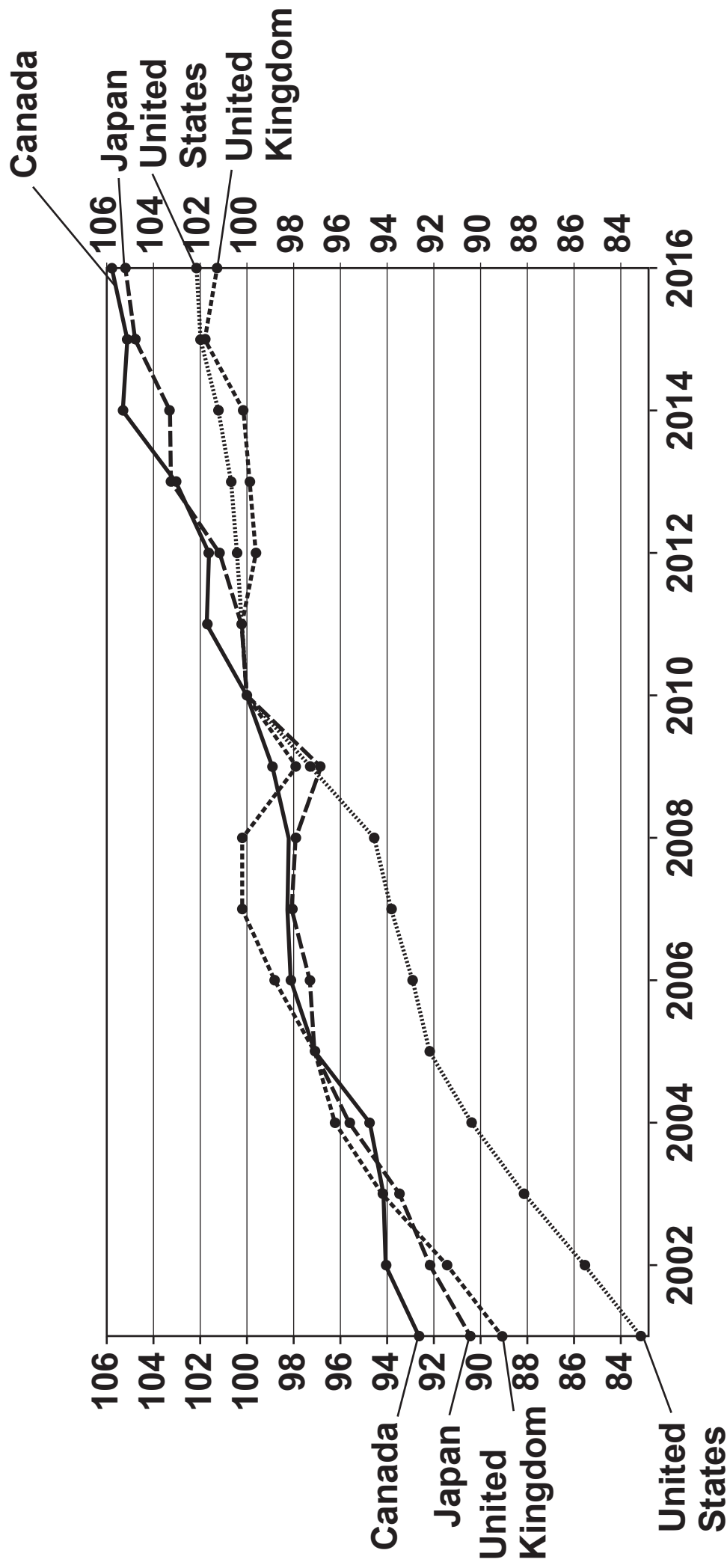
- 24. The Chancellor of the Exchequer, Philip Hammond, cut tax bills for first-time house buyers in the November 2017 Budget as he removed stamp duty (a tax on the purchase of property) on houses priced up to £300 000 for first-time buyers.**

But the Office of Budget Responsibility said ‘the main gainers from the policy will be people who already own property, not the first-time buyers themselves.’

Using the data opposite assess the extent to which first-time buyers are likely to benefit from the removal of stamp duty on properties up to the value of £300 000. [6]

6

INDEX NUMBERS OF GDP/HOUR WORKED (2010=100)



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

- 25. The chart opposite contains information on the labour productivity of four countries.**
- (a) Using the data, compare the UK's productivity performance with that of the other countries over the period shown in the chart. [4]**

[illegible]

25(b) To what extent do these productivity figures pose a problem for the UK economy? [6]

[illegible]

10

END OF PAPER

FOR CONTINUATION ONLY.

[illegible]

FOR CONTINUATION ONLY.

[illegible]

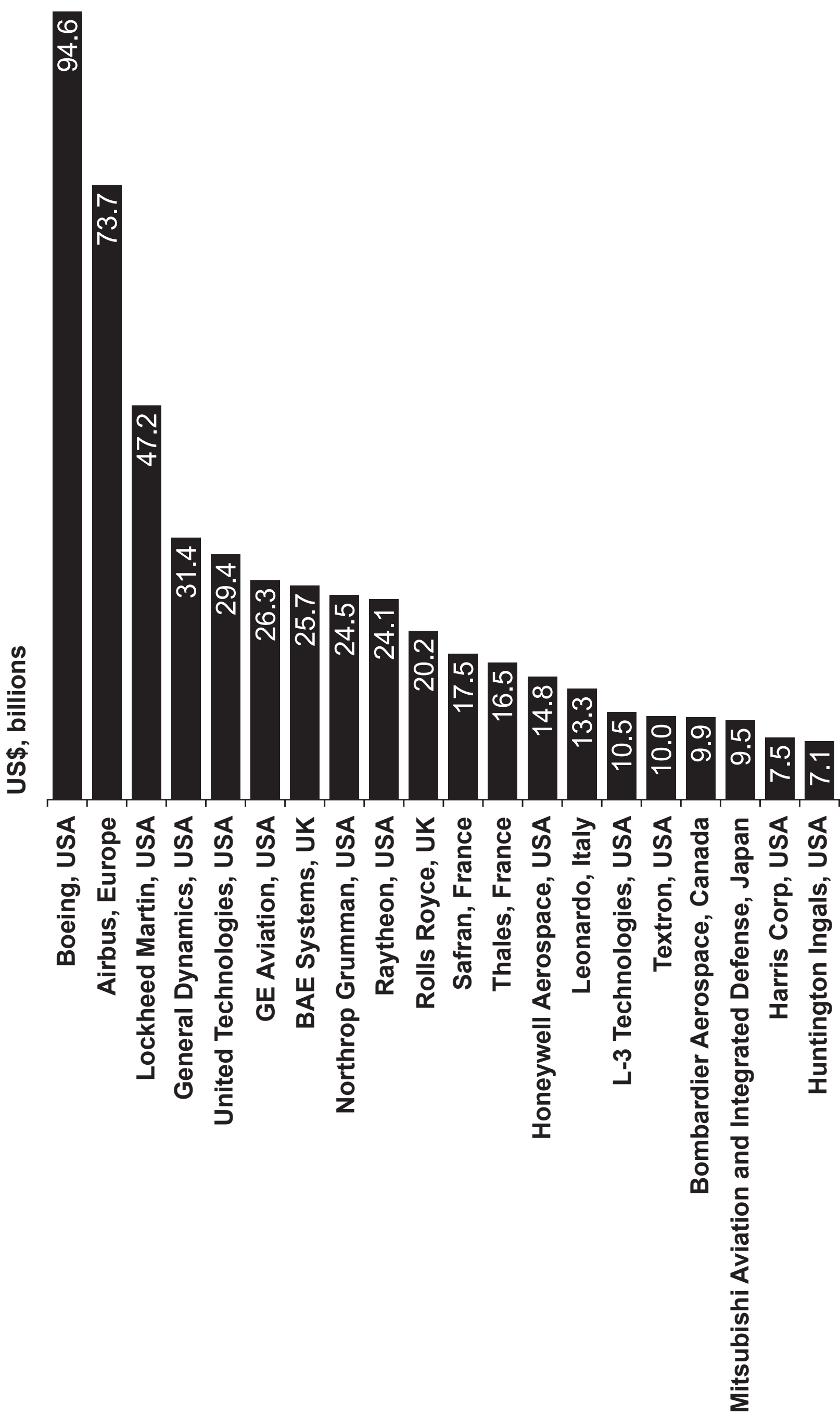
FOR CONTINUATION ONLY.

[illegible]

FOR CONTINUATION ONLY.

[illegible]

TOP 20 GLOBAL AEROSPACE COMPANIES BY REVENUE, 2016



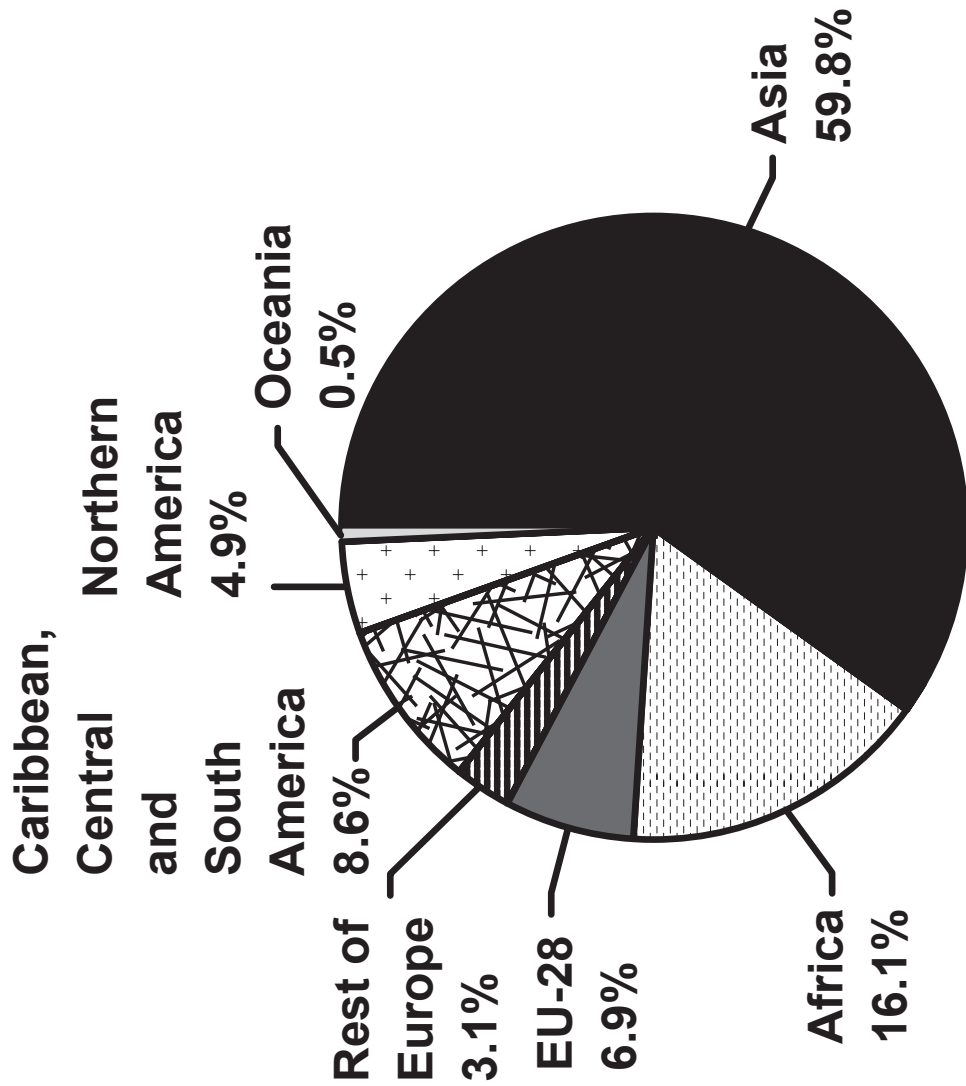
Total sales of firms shown in the chart = \$513.7 billion

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

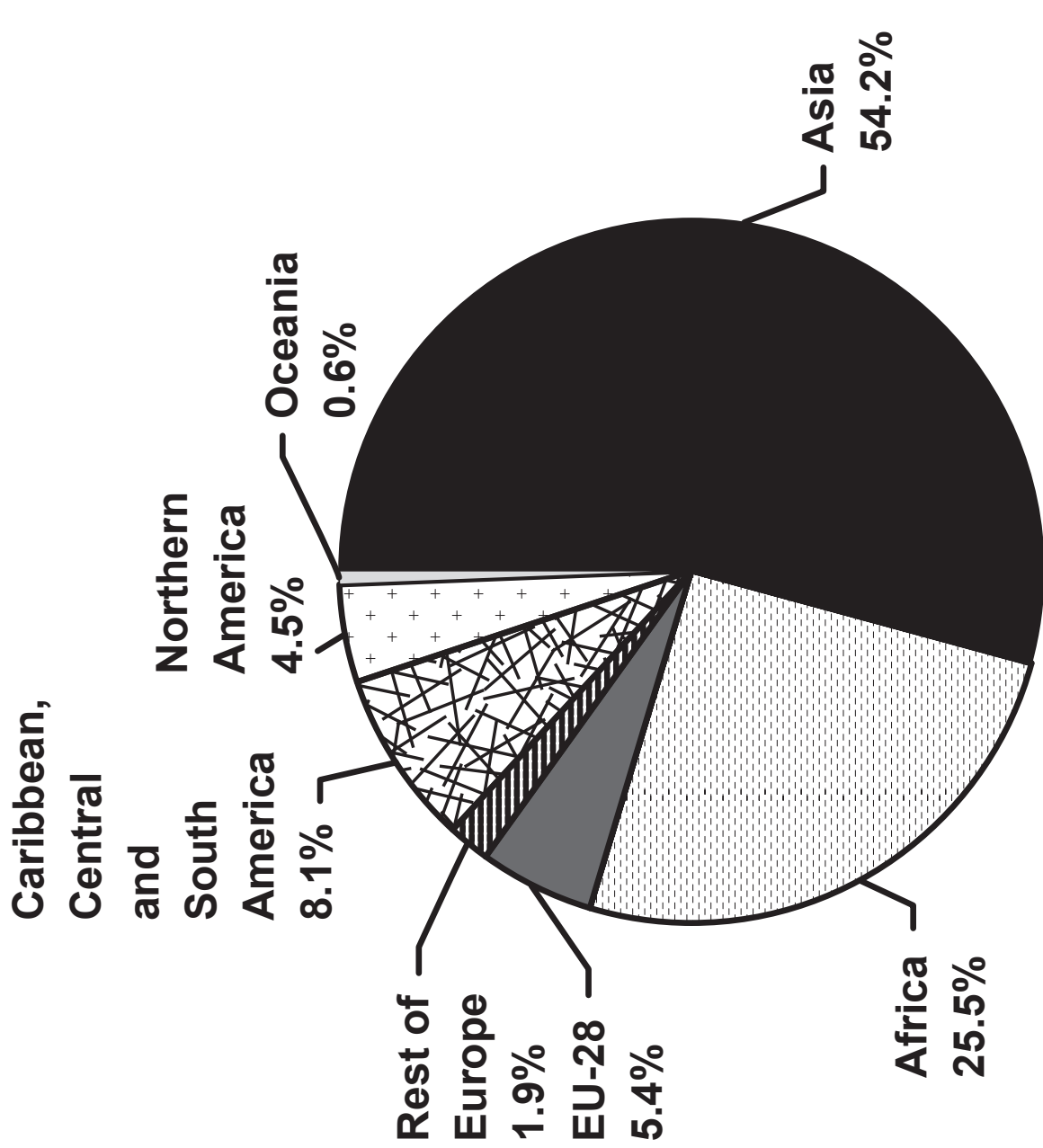
2015 WORLD POPULATION AND 2050 WORLD POPULATION FORECAST BY REGION

(% of world population)

2015



2050



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

FIGURE 1

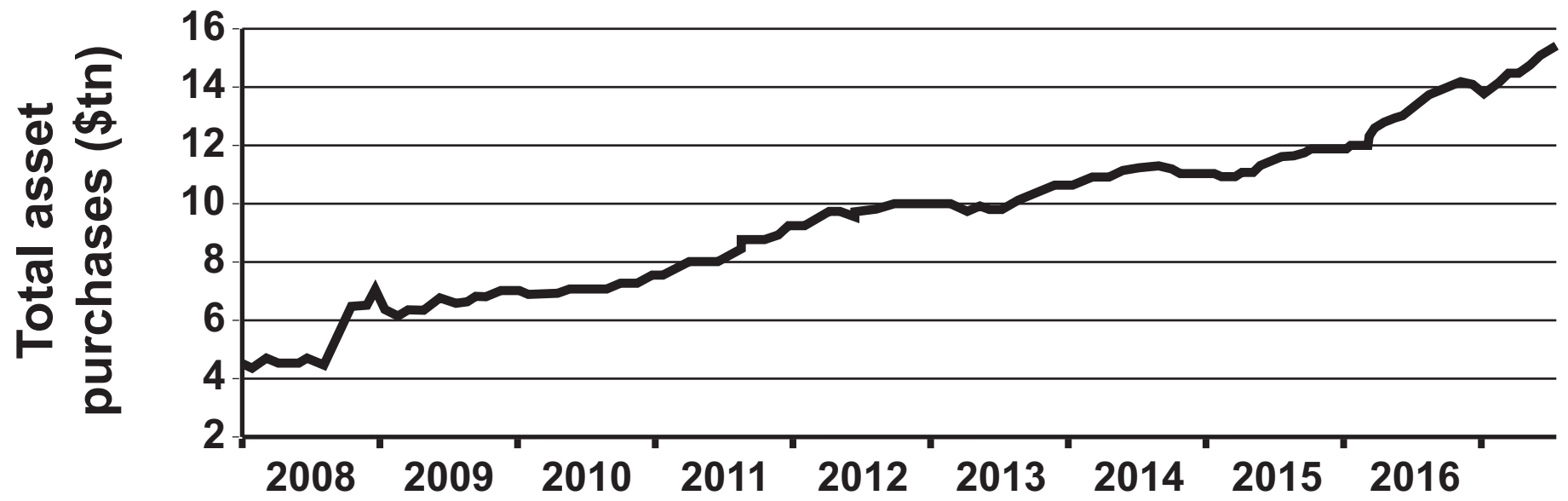


FIGURE 2

