AQA

Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

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Candidate signature _____
I declare this is my own work.

A-level
ECONOMICS

Paper 3 Economic Principles and Issues

Monday 8 June 2020 Morning Time allowed: 2 hours

Materials
For this paper you must have:
- the insert
- a calculator.

Instructions
- Answer **all** questions.
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Fill in the boxes at the top of this page.
- You will need to refer to the insert provided to answer **Section B**.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this answer book. Cross through any work that you do not want to be marked.

Information
- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- No deductions will be made for wrong answers.

For Examiner's Use	
Section	Mark
A	
B	
TOTAL	

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Section A

Answer **all** questions in this section.

Only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD ⬬ WRONG METHODS

If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1 Economics is a social science because

A all economic hypotheses are based on value judgements. ⬭

B economic policies can only be based on positive analysis. ⬭

C it involves the study of human behaviour and economic decision making ⬭

D quantitative data cannot be used to test economic theories. ⬭

[1 mark]

0 2 All other things being equal, the demand for labour is more likely to be wage elastic if

A it is difficult to substitute capital for labour. ⬭

B the cost of labour is a low percentage of total costs. ⬭

C the final product has a high price elasticity of demand. ⬭

D the supply curve for labour is wage elastic. ⬭

[1 mark]

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0 3 **Table 1** contains data for the rates of growth of nominal and real GDP and the rate of inflation for an economy in a given year. Which one of the following combinations, **A**, **B, C** or **D**, shows the correct relationship between the three variables?

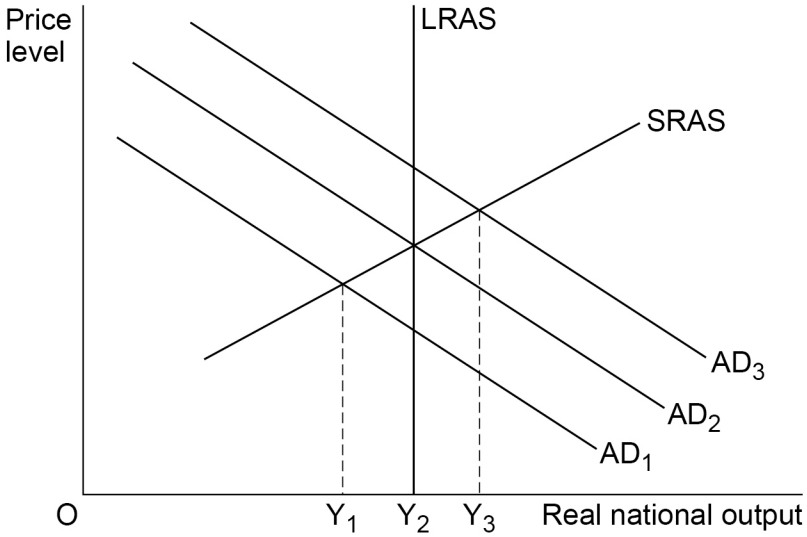
Table 1

	Nominal GDP growth	Real GDP growth	Inflation	
A	–2%	0%	+2%	⬭
B	+4%	+3%	–1%	⬭
C	+5%	+5%	+1%	⬭
D	–5%	–2%	–3%	⬭

[1 mark]

0 4 **Figure 1** shows three aggregate demand (AD) curves, a short-run aggregate supply (SRAS) curve and a long-run aggregate supply (LRAS) curve.

Figure 1



In **Figure 1**, when

A aggregate demand shifts from AD_1 to AD_2, cyclical unemployment is likely to be eliminated. ⬭

B aggregate demand shifts from AD_1 to AD_3, the rate of economic growth is equal to $(Y_3 – Y_1)$. ⬭

C the economy is producing at Y_1, there is a positive output gap. ⬭

D the economy is producing at Y_2, there is no unemployment. ⬭

[1 mark]

Turn over ►

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0 5 In an economy, over the last decade, each of the top five decile groups has experienced a fall in their share of total income. In contrast, the bottom five decile groups have experienced a substantial increase in their share of total income.

It can be concluded that, over this period, the distribution of income is most likely to have become

A more equal. ⬭

B more equal but less equitable. ⬭

C more equitable. ⬭

D more equitable but less equal. ⬭

[1 mark]

0 6 In an economy, the marginal propensity to consume is 0.6. All other things being equal, which one of the following statements is correct?

A A £5 billion reduction in the economy's national income will result in a £3 billion fall in consumption ⬭

B If injections into the circular flow of income equal £20 billion, national income will equal £32 billion ⬭

C If injections into the circular flow of income rise by £10 billion, national income will rise by £6 billion ⬭

D When the economy's national income equals £100 billion, consumption will equal £60 billion ⬭

[1 mark]

0 7 Which one of the following combinations, **A**, **B**, **C** or **D**, shows the essential characteristics of a customs union?

	Internal trade barriers	Common external tariffs	Common currency	
A	Yes	No	Yes	⬭
B	No	Yes	No	⬭
C	Yes	Yes	No	⬭
D	No	No	Yes	⬭

[1 mark]

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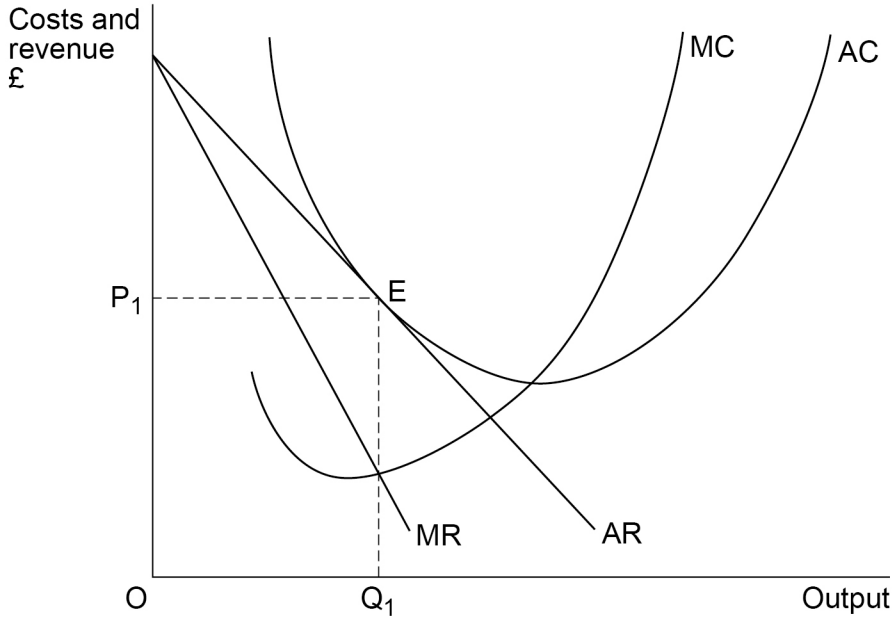
0 8 **Figure 2** shows the equilibrium position, point E, of a profit-maximising firm in a monopolistically competitive industry.

Figure 2



All other things being equal, which one of the following applies to the firm's equilibrium at point E? The firm is

A in short-run equilibrium, but not in long-run equilibrium. ⬭

B making normal profit because AC = AR. ⬭

C making supernormal profit because MC = MR. ⬭

D productively efficient but not allocatively efficient. ⬭

[1 mark]

0 9 A long-dated £100 government bond with a coupon rate of 5% has a current market value of £125. This implies that the

A current yield on the bond is 4%. ⬭

B current yield on the bond is 5%. ⬭

C market rate of interest is 2.5%. ⬭

D market rate of interest is 5%. ⬭

[1 mark]

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1 0 All other things being equal, in which one of the following circumstances is the Bank of England most likely to raise Bank Rate to maintain financial stability?

A A fall in bank liquidity and capital ratios following several years of rapid growth in bank lending and a boom in house prices

B An increase in the government's target for the rate of inflation following a significant increase in the rate of productivity growth

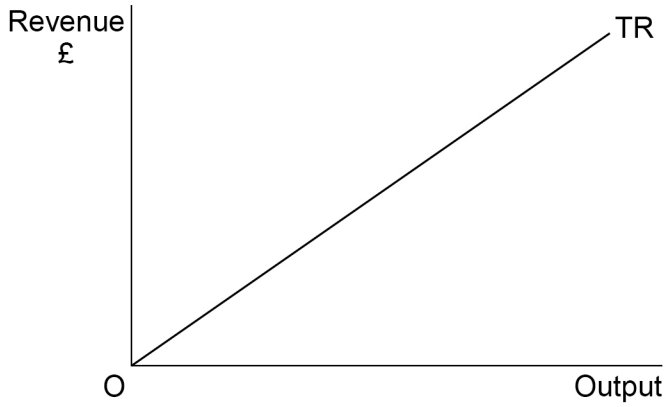
C An increase in the savings ratio as the economy recovers from a recession

D A rise in share prices on global stock markets due to the growth in world trade

[1 mark]

1 1 **Figure 3** shows a firm's total revenue (TR) curve.

Figure 3



Which one of the following combinations, **A**, **B**, **C** or **D**, describes how the firm's average revenue and marginal revenue will change as the firm expands its output?

	Average revenue	Marginal revenue
A	Increases	Increases
B	Constant	Constant
C	Decreases	Decreases
D	Increases	Constant

[1 mark]

Do not write outside the box

1 2 According to the hypothesis of diminishing marginal utility, when marginal utility is zero

A average utility is negative. ⬭

B the good is a demerit good. ⬭

C total utility from consuming the good is maximised. ⬭

D total utility will increase by consuming more of the good. ⬭

[1 mark]

1 3 **Table 2** shows the inflation rate and the rate of growth of the money supply for an economy between 2016 and 2019.

Table 2

Year	Inflation	Rate of growth of money supply
2016	3.1%	3.5%
2017	3.5%	3.3%
2018	2.9%	3.2%
2019	2.5%	2.0%

From the data in **Table 2** it may be concluded that, all other things being equal, there was

A a fall in the value of money throughout the entire period. ⬭

B a policy of quantitative easing in operation throughout the entire period. ⬭

C an inverse relationship between inflation and the rate of growth of the money supply. ⬭

D continuous disinflation throughout the entire period. ⬭

[1 mark]

Do not write outside the box

1 4 Increased output results from specialisation and the division of labour because they enable

A countries to produce outside their production possibility boundary. ⬭

B more efficient use of the available resources. ⬭

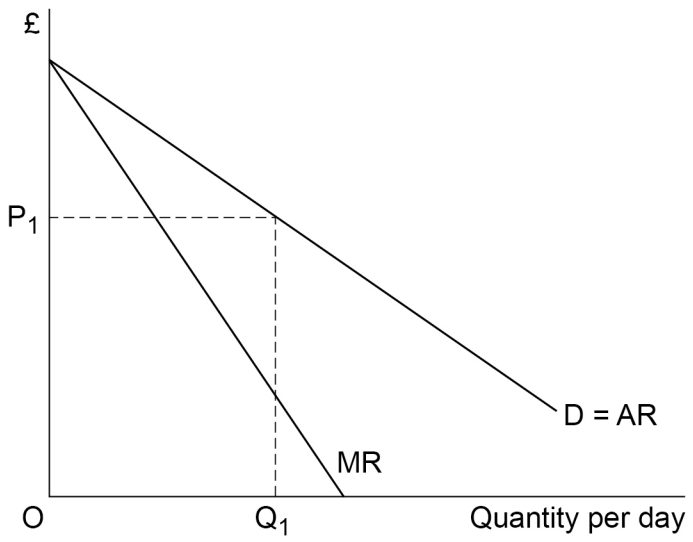
C people to exchange goods and services with each other. ⬭

D the use of money as a medium of exchange and store of value. ⬭

[1 mark]

1 5 **Figure 4** shows a firm's demand (D) curve and its marginal revenue (MR) curve for good X. The firm initially sells OQ_1 units of X per day at a price of OP_1.

Figure 4



If the firm increases its price by 10%

A price elasticity of demand will decrease. ⬭

B price elasticity of demand will not change. ⬭

C total revenue will decrease. ⬭

D total revenue will increase. ⬭

[1 mark]

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1 6 Which one of the following distinguishes a private good from a pure public good?

A A private good can only be provided by private firms and not the government ⬭

B Consumption of a private good creates negative externalities for other consumers ⬭

C Consumers of a private good have full knowledge of any externalities in its production ⬭

D One person's consumption of a private good reduces the amount available for other consumers ⬭

[1 mark]

1 7 **Table 3** shows the demand for and supply of oranges at a range of prices between 10 pence and 30 pence.

Table 3

Price (pence)	Quantity supplied (000s)	Quantity demanded (000s)
10	100	125
15	120	120
20	122	108
25	125	100
30	128	88

As a result of an increase in consumers' incomes, the demand for oranges increases by 25% at each of the prices shown in **Table 3**.

After the rise in incomes:

A at a price of 10 pence, excess demand increases by 50%. ⬭

B at a price of 30 pence, excess supply falls by 75%. ⬭

C the equilibrium market price increases by two-thirds. ⬭

D the price elasticity of demand increases by 25% at each price. ⬭

[1 mark]

Do not write outside the box

1 8 Which one of the following government policies is most likely to reduce market failure and to improve the allocation of resources?

A A higher rate of tax on all firms earning profit

B A minimum price for demerit goods above their free market price

C Free market pricing for the provision of public goods

D Subsidies paid to all loss-making firms to maintain full employment

[1 mark]

1 9 The long-run Phillips curve shows that

A the expected rate of inflation is zero.

B there is an inverse relationship between unemployment and inflation in the long run.

C there is no trade-off between reducing inflation and lower unemployment in the long run.

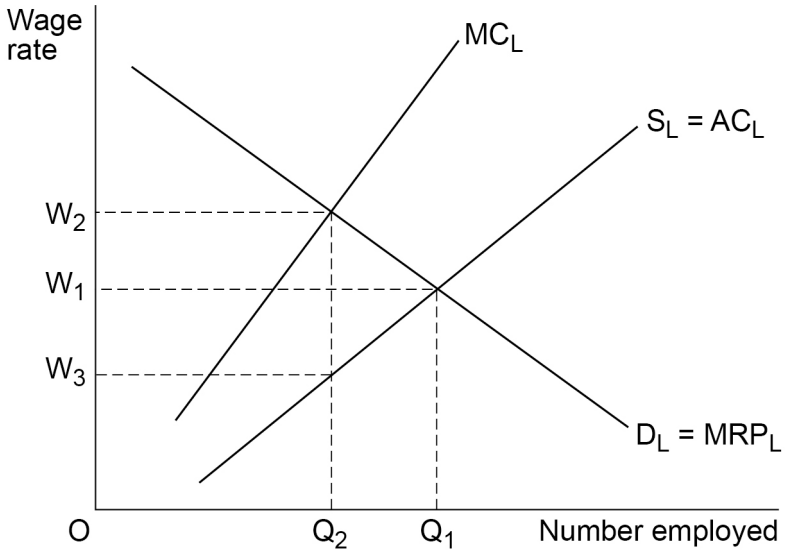
D unemployment can only be reduced in the long run by an increase in aggregate demand.

[1 mark]

Do not write outside the box

2 0 **Figure 5** shows the market demand for labour ($D_L = MRP_L$), the market supply of labour ($S_L = AC_L$), and the marginal cost of labour (MC_L), in a particular industry. The employer in this industry is a monopsonist.

Figure 5



From **Figure 5**, it can be concluded that, in the absence of a trade union or a minimum wage, the firm will employ

A OQ_1 workers at a wage of OW_1. ⬭

B OQ_2 workers at a wage of OW_1. ⬭

C OQ_2 workers at a wage of OW_2. ⬭

D OQ_2 workers at a wage of OW_3. ⬭

[1 mark]

2 1 All other things being equal, which one of the following is most likely to increase the national debt?

A Foreign companies increasing their direct investment into the economy ⬭

B The central bank using its reserves of foreign currency to fund a trade deficit ⬭

C The government reducing its budget surplus by increasing its expenditure on infrastructure ⬭

D The government running a budget deficit, financed by selling bonds to foreign investors ⬭

[1 mark]

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2 2 **Table 4** shows the weights used in the Consumer Prices Index (CPI) for a selection of items in 2008 and 2018.

Table 4

Category	2008 weight	2018 weight
Food and non-alcoholic beverages	109	101
Alcoholic beverages and tobacco	42	42
Clothing and footwear	63	70
Transport	152	156
All goods	547	519
All services	453	481

The data in **Table 4** indicate that between 2008 and 2018 the

A average price of goods fell, whereas the average price of services increased. ⬭

B percentage increase in the price of 'Clothing and footwear' was greater than the percentage increase in the price of 'Transport'. ⬭

C proportion of total expenditure, by a typical household, on 'Alcoholic beverages and tobacco' did not change. ⬭

D total expenditure of a typical household on 'Food and non-alcoholic beverages' fell. ⬭

[1 mark]

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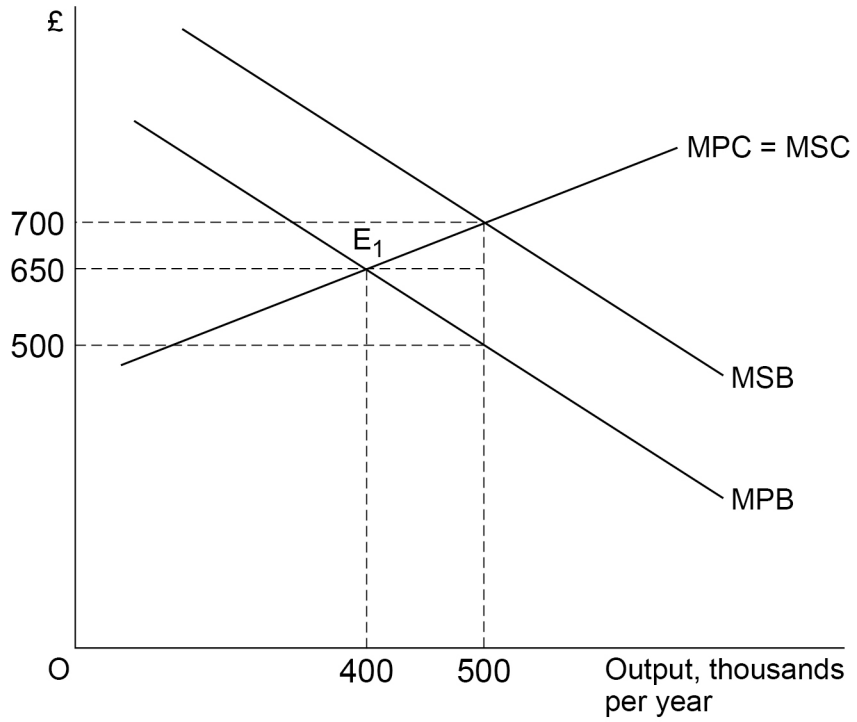
2 3 **Figure 6** shows the marginal private and social benefit (MPB and MSB) curves and the marginal private and social cost (MPC and MSC) curves in the market for domestically produced solar panels. The initial market equilibrium is at E_1.

Figure 6



To correct the market failure, the government introduces a subsidy to domestic manufacturers of solar panels of £200 per unit produced. Which one of the following represents the total amount of subsidy payments made by the government in the first year of the scheme?

A £20 million. ⬭

B £25 million. ⬭

C £75 million. ⬭

D £100 million. ⬭

[1 mark]

Turn over ►

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2 4 Moral hazard results when individuals and organisations make investment decisions

A based on asymmetric information. ⬭

B because they expect to make a large profit. ⬭

C based on the returns made on previous investments. ⬭

D knowing that others will bear the loss if things go wrong. ⬭

[1 mark]

2 5 An economy is estimated to be experiencing a 2% rate of frictional unemployment plus a 3% rate of structural and real wage unemployment. If it is also experiencing cyclical unemployment of 4%, its natural rate of unemployment is most likely to be

A 3% ⬭

B 5% ⬭

C 6% ⬭

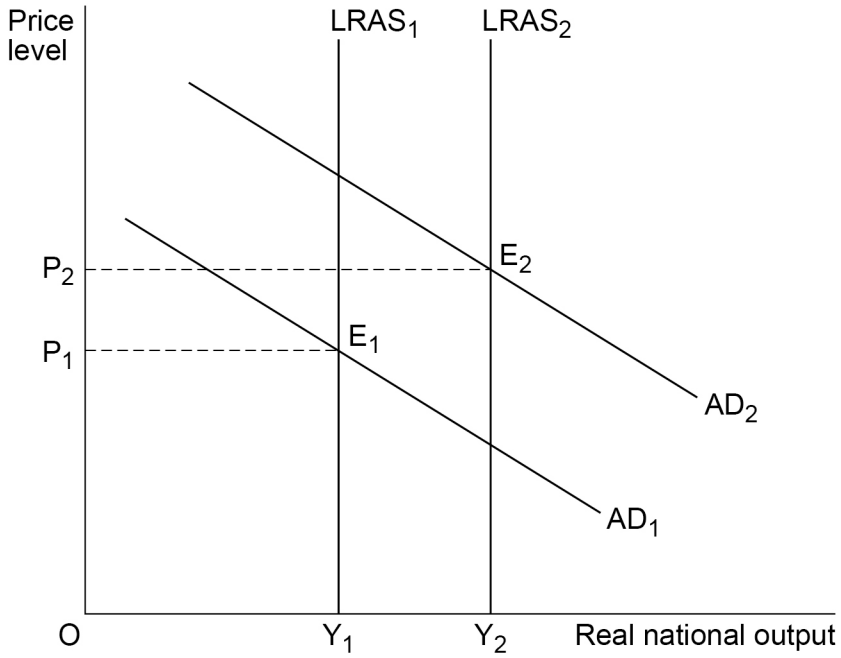
D 9% ⬭

[1 mark]

Do not write outside the box

2 6 **Figure 7** shows two aggregate demand (AD_1 and AD_2) curves and two long-run aggregate supply ($LRAS_1$ and $LRAS_2$) curves for an economy.

Figure 7



All other things being equal, which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to explain the movement of the economy from E_1 to E_2?

An increase in the

A budget surplus and size of the multiplier. ⬭

B exchange rate and supply of money. ⬭

C rate of inflation and positive output gap. ⬭

D volume of exports and potential output. ⬭

[1 mark]

2 7 Which one of the following is correct for a proportional tax on income?

A The amount of tax paid increases as income increases ⬭

B The marginal rate of tax is lower than the average rate ⬭

C The average rate of tax falls as income increases ⬭

D The average rate of tax is lower than the marginal rate ⬭

[1 mark]

Turn over ►

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2 8 **Table 5** contains data for a firm's marginal cost of producing different outputs of shirts per day. The firm operates in a perfectly competitive market.

Table 5

Output of shirts per day	Marginal cost (£s)
800	8
900	9
1000	10
1100	11

If the market price is £10 per shirt, at which one of the following outputs per day, **A**, **B**, **C** or **D**, will the firm maximise its profit?

A 800 ⬭

B 900 ⬭

C 1000 ⬭

D 1100 ⬭

[1 mark]

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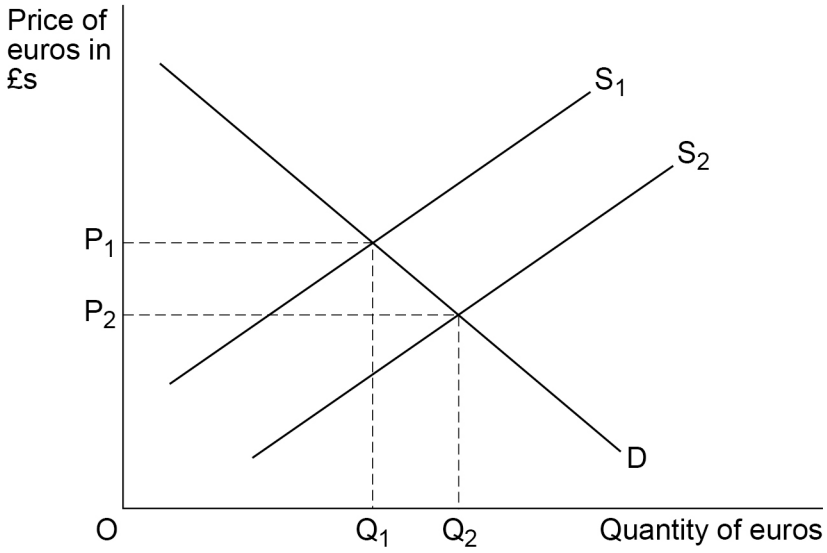
2 9 **Figure 8** shows two supply (S_1 and S_2) curves and the demand (D) curve for euros on the foreign exchange market and the price of euros in terms of pounds sterling.

Figure 8



Which one of the following is the most likely explanation for the change in the exchange rate shown in **Figure 8**?

An increase in eurozone

A companies buying factories in the UK. ⬭

B exports of manufactured goods to the UK. ⬭

C interest rates relative to those in the UK. ⬭

D productivity growth relative to that in the UK. ⬭

[1 mark]

3 0 The behaviour of a consumer buying a 75-inch large screen TV is biased due to bounded rationality and the anchoring effect. This implies that the choice of which TV to buy is based on the price of

A all available 75-inch TVs, given sufficient time to obtain the information. ⬭

B the cheapest available 75-inch TV, in order to maximise utility. ⬭

C the first 75-inch TV seen and imperfect information about available alternatives. ⬭

D the most expensive 75-inch TV, believing that this indicates the best quality available. ⬭

[1 mark]

30

Turn over ►

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Section B

Answer **all** questions in this section.

Refer to the insert for Extracts A, B, C and D.

Total for this Investigation: 50 marks

Changing living standards and inequality in the UK

INVESTIGATION

Scenario

You are an economist working for an organisation which investigates ways to improve the standard of living of UK citizens.

You have been asked to review changes in living standards and inequality since the 2007–2008 financial crisis.

As part of this investigation, you are to provide answers to three questions.

Referring to the insert, study **Extracts A**, **B** and **C** and then use these and your knowledge of economics to help you answer Questions 31 and 32. There is also a news report, **Extract D**, which is to be used with the other extracts to help you answer Question 33.

3 1 To what extent, if at all, do the data suggest that living standards in the UK improved between 2007 and 2017? You must use the data in **Extract B** to support your assessment.

[10 marks]

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3 2 Explain how a sustained slowdown in the world economy is likely to affect living standards in the UK.

[15 marks]

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3 3 After considering **Extract D**, and the original evidence in **Extracts A**, **B** and **C**, would you recommend that the government implement a further substantial increase in the National Living Wage? Justify your recommendation.

[25 marks]

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END OF QUESTIONS

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